

CHINA 21ST CENTURY EDUCATION GROUP LIMITED 中國21世紀教育集團有限公司

///////// (Incorporated in the Cayman Islands with limited liability)

///////// Stock Code: 1598

GLOBAL OFFERING

**Sole Sponsor, Sole Global Coordinator,
Joint Bookrunner and Joint Lead Manager**



中信建投國際

China Securities International

Joint Bookrunners and Joint Lead Managers



IMPORTANT

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

China 21st Century Education Group Limited 中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Total Number of Offer Shares under the Global Offering	: 360,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 36,000,000 Shares (subject to adjustment)
Number of International Placing Shares	: 324,000,000 Shares (subject to the Over-allotment Option and adjustment)
Maximum Offer Price	: Not more than HK\$1.13 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 1598

Sole Sponsor, Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager



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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator, on behalf of the Underwriters, and our Company on or before Friday, May 18, 2018 or such later time as may be agreed between the parties, but in any event, no later than Friday, May 25, 2018. If, for any reason, the Sole Global Coordinator, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Friday, May 25, 2018, the Global Offering will not proceed and will lapse immediately. The Offer Price will be not more than HK\$1.13 per Share and is expected to be not less than HK\$0.79 per Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum offer price of HK\$1.13 for each Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price is lower than HK\$1.13. The Sole Global Coordinator, on behalf of the Underwriters, may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of such reduction will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.21centuryedu.com as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

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

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement, the Sole Global Coordinator, on behalf of the Hong Kong Underwriters, has the right in certain circumstances, in their absolute discretion, to terminate the obligations of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in "Underwriting – Underwriting Arrangements and Expenses – Grounds for Termination" in this prospectus. It is important that you refer to that paragraph for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law of the United States and may not be offered, sold, pledged or transferred within the United States, or to, or for the account or benefit of U.S. persons, except that the Offer Shares may be offered, sold or delivered in offshore transactions outside the United States in reliance on Regulation S under the U.S. Securities Act.

May 15, 2018

EXPECTED TIMETABLE^(NOTE 1)

Our Company will issue an announcement on the website of the Stock Exchange at www.hkex.com.hk and our website at www.21centuryedu.com if there is any change in the following expected timetable of the Hong Kong Public Offering.

Hong Kong Public Offering commences and **WHITE**
and **YELLOW** Application Forms available from 9:00 a.m. on Tuesday, May 15, 2018

Latest time to complete electronic applications under
HK eIPO White Form service through the designated
website at www.hkeipo.hk (note 4) 11:30 a.m. on Friday, May 18, 2018

Application lists for the Hong Kong Public Offering open (note 2) 11:45 a.m. on
Friday, May 18, 2018

Latest time for lodging **WHITE** and **YELLOW**
Application Forms and giving **electronic**
application instructions to HKSCC (note 3) 12:00 noon on Friday, May 18, 2018

Latest time to complete payments for **HK eIPO White Form**
applications by effecting internet banking
transfer(s) or PPS payment transfer(s) 12:00 noon on Friday, May 18, 2018

Application lists close (note 2) 12:00 noon on Friday, May 18, 2018

Expected Price Determination Date (note 6) Friday, May 18, 2018

Announcement of the Offer Price, the indications of the
level of interest in the International Placing, the level of
applications in the Hong Kong Public Offering, and the basis of
allocation of the Hong Kong Offer Shares to be published in the
South China Morning Post (in English) and the Hong Kong
Economic Times (in Chinese) and at the websites of the
Stock Exchange at www.hkexnews.hk and the Company
at www.21centuryedu.com on or before (note 7) Monday, May 28, 2018

Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document numbers,
where appropriate) to be available through a variety of channels.
(See "How to Apply for the Hong Kong Offer Shares –
11. Publication of Results") from Monday, May 28, 2018

Results of allocations in the Hong Kong Public Offering will be available
at www.tricor.com.hk/ipd/result with a "search by ID function" Monday, May 28, 2018

Despatch of share certificates in respect of wholly
or partially successful applications pursuant to
the Hong Kong Public Offering on or before (notes 5 & 8) Monday, May 28, 2018

Share certificates in respect of wholly or partially
successful applications to be despatched or deposited
into CCASS on (note 8) Monday, May 28, 2018

e-Auto Refund payment instructions/refund
cheques in respect of wholly successful (if applicable)
or wholly or partially unsuccessful applications to be
despatched on (notes 7 & 11) Monday, May 28, 2018

Dealings in Shares on the Main Board of the
Stock Exchange to commence on 9:00 a.m. on Tuesday, May 29, 2018

EXPECTED TIMETABLE^(NOTE 1)

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure and conditions of the Global Offering are set out in “Structure and Conditions of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, May 18, 2018, the application lists will not open and close on that day. Further information is set out in “How to Apply for the Hong Kong Offer Shares – 10. Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Friday, May 18, 2018, the dates mentioned in this section may be affected. An announcement will be made by us in such event.
- (3) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should see “How to Apply for the Hong Kong Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus for further details.
- (4) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) Share certificates for the Hong Kong Offer Shares will become valid certificates of title at 8:00 a.m. on Tuesday, May 29, 2018, provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates become valid certificates do so entirely at their own risk.
- (6) The Offer Price is expected to be determined by Friday, May 18, 2018 but in any event, the expected time for determination of the Offer Price will not be later than Friday, May 25, 2018. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator, on behalf of the Underwriters, and our Company by Friday, May 25, 2018, the Global Offering will not proceed and will lapse.
- (7) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.
- (8) Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required on their Application Forms may collect any refund cheque(s) and/or share certificate(s) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Monday, May 28, 2018. Applicants being individuals who apply for 1,000,000 Hong Kong Offer Shares or more and are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Offer Shares or more and are eligible for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations’ chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Branch Share Registrar must be produced at the time of collection.
- (9) Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required by their Application Forms may collect their refund cheque(s), where applicable, in person but may not collect their share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) Applicants who apply for Hong Kong Offer Shares via **HK eIPO White Form** should see “How to Apply for the Hong Kong Offer Shares – 13. Refund of application monies” in this prospectus.
- (11) Uncollected share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant applications. Further details are set out in “How to Apply for the Hong Kong Offer Shares – 14. Despatch/collection of share certificates and refund monies” in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers, representatives or advisors or any other person involved in the Global Offering.

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SUMMARY

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

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

OVERVIEW

We are a large established private education service provider based in Hebei Province, China, serving a wide range of students from preschool students in our kindergartens, to primary school, middle school and high school students in our tutorial centers, to junior college and continuing education students in our college. As of the Latest Practicable Date, we had a total of 15 schools located in Shijiazhuang, Hebei Province, including one private college (Shijiazhuang Institute of Technology), six Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and eight Saintach Kindergartens. According to the Frost & Sullivan Report:

- our Shijiazhuang Institute of Technology, which commenced operation in October 2003, ranked second in terms of total student enrollment in the 2017-2018 school year among private junior colleges in each of Shijiazhuang, Hebei Province and the larger Integrated Area*, with a market share of 8.4%, 7.4% and 6.2%, respectively;
- our Saintach Tutorial Centers, the first of which commenced operation in February 2009, ranked fourth and seventh in terms of total revenue in the year ended December 31, 2017 among private tutoring service providers in Shijiazhuang and Hebei Province, with a market share of 2.8% and 0.4%, respectively; and
- our Saintach Kindergartens, the first of which commenced operation in January 2011, ranked second and eleventh in terms of total student enrollment in the 2017-2018 school year among private preschools in Shijiazhuang and Hebei Province, with a market share of 1.4% and 0.2%, respectively.

We experienced significant growth in our student enrollment over the Track Record Period. Our overall combined student enrollment in Shijiazhuang Institute of Technology and our Saintach Kindergartens cumulatively grew from approximately 11,913 as of June 30, 2015 to approximately 14,820 as of June 30, 2017, and further to 19,181 as of December 31, 2017. Student enrollment in our Saintach Tutorial Centers, represented by Tutoring Hours delivered to students, also grew from approximately 329,635 Tutoring Hours (covering approximately 3,710 students tutored) for the year ended December 31, 2015 to approximately 367,752 Tutoring Hours (covering approximately 4,928 students tutored) for the year ended December 31, 2017.

We also experienced growth in our revenue, gross profit, net profit and adjusted net profit over the Track Record Period. Our total revenue grew from RMB147.3 million for the year ended December 31, 2015 to RMB169.7 million for the year ended December 31, 2017. Our gross profit and net profit grew from RMB59.9 million and RMB26.7 million, respectively, for the year ended December 31, 2015 to RMB76.4 million and RMB45.0 million, respectively, for the year ended December 31, 2017. Our adjusted net profit grew significantly from RMB26.7 million for the year ended December 31, 2015 to RMB56.7 million for the year ended December 31, 2017. Please see “Financial Information – Key Components of Our Results of Operations – Non-IFRS Measure” in this prospectus for details.

OUR SCHOOLS

As of the Latest Practicable Date, we operated a total of 15 schools located in Shijiazhuang, Hebei Province, including one private college (Shijiazhuang Institute of Technology), six Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and eight Saintach Kindergartens, through which we offer comprehensive education and tutorial programs for students from kindergarten to college. We typically charge our students fees comprising tuition (including tutoring fees) and, at our Shijiazhuang Institute of Technology, boarding fees. We require students at Shijiazhuang Institute of Technology to pay tuition and boarding fees for the entire school year prior to the beginning of the school year, and recognize revenue proportionately over the course of the relevant period of the applicable program. For our Saintach

* The Integrated Area encompasses Beijing, Tianjin and Hebei Province and is also known as the Beijing, Tianjin and Hebei Province Integrated Area. The concept of this area was created pursuant to a national strategic initiative to promote the region's economic development.

SUMMARY

Tutorial Centers, tuition is charged based on the number of Tutoring Hours to be taken by students and the type of class, and is generally required to be paid in a lump sum after signing of the relevant service contracts and prior to the commencement of the first tutoring session. For our Saintach Kindergartens, tuition is paid in advance on a monthly basis at the beginning of each month of the academic year and recognized upon the completion of the education services for the month. Please see “Business – Our Schools – Tuition and Boarding Fees” in this prospectus for details. We had 1,057, 1,012 and 1,322 teachers, respectively, as of December 31, 2015, 2016 and 2017, including 470, 435 and 701 part-time teachers, respectively, as of the same dates. Please see “Business – Our Teachers” in this prospectus for details. We also provide college operation services on behalf of Lionful Education, our related party, to aid in the school operation and student administration of the west campus of Sifang College pursuant to an entrustment arrangement between Lionful Education and Shijiazhuang Institute of Technology. According to the arrangement, the entirety of the 65% of tuition revenue from students in the west campus of Sifang College which Lionful Education was entitled to receive is transferred to Shijiazhuang Institute of Technology, making Lionful Education our largest customer during the Track Record Period. In addition, pursuant to the relevant agreements, we are also responsible for providing accommodation services to students enrolled in the west campus of Sifang College. Revenue derived from college operation services we provided with regard to the west campus of Sifang College for the three years ended December 31, 2015, 2016 and 2017 was approximately RMB19.7 million, RMB19.7 million and RMB19.8 million, respectively, representing approximately 13.4%, 13.4% and 11.7% respectively, of our total revenue. Such revenue consisted of (i) school operation service income we collect from Lionful Education of approximately RMB17.9 million, RMB18.0 million and RMB18.1 million, respectively and (ii) student accommodation service income we collect directly from students of the west campus of Sifang College of approximately RMB1.8 million, RMB1.7 million and RMB1.8 million, respectively. Please see “Business – Our Schools – Shijiazhuang Institute of Technology – Ancillary Education Services – College Operation Services to the West Campus of Sifang College” and “Business – Customers and Suppliers” for details.

Shijiazhuang Institute of Technology

Our Shijiazhuang Institute of Technology offers a variety of comprehensive tertiary education programs, including full-time diploma programs at both junior college and secondary vocational school levels, as well as part-time continuing education programs. Our curriculums are focused on equipping students with practical and readily-usable skills that are valuable in the current job market. We have designed and implemented a coherent educational system for cultivating students, the “Technique-Occupation-Personality System” (the “TOP System”), to help improve the academic performance, employability, job-seeking skills and personal development of students at Shijiazhuang Institute of Technology. As a crucial element of the TOP System, we have established meaningful industry connections and attracted a large number of industry partners to establish a variety of simulation-based training programs for junior college students at Shijiazhuang Institute of Technology. We believe our curriculums, together with our TOP System and, in particular, our collaboration with key industry partners, contribute to a high post-graduation employment rate for students at Shijiazhuang Institute of Technology. In addition, Shijiazhuang Institute of Technology offers a variety of ancillary education services, including skill-oriented professional training services and college operation services provided to the west campus of Sifang College. Over its 14 years of development, Shijiazhuang Institute of Technology has established a strong reputation among students and achieved notable success.

Saintach Tutorial Centers

Our Saintach Tutorial Centers provide high-quality individual or small-group tutoring for primary school, middle school and high school students. We tailor tutoring programs to meet the specific learning needs of individual students. Each student tutored at our Saintach Tutorial Centers is assigned a “Golden Coach”, a learning advisor who works with the student to customize a tutorial program and monitors the student’s progress on an on-going basis. We believe that the quality of our services and the success of our students have helped us achieve consistent growth in student enrollment and enabled us to increase our tutoring fees.

Saintach Kindergartens

The overarching goal at our Saintach Kindergartens is to cultivate our children to become good citizens who are confident, friendly, tolerant and responsible from an early age. We believe it is important to not only focus on the academic performance of our kindergarten students but also to nurture them by creating an environment that accommodates the distinct learning needs, interests, aspirations and backgrounds of individual students. To this end, we have developed the “Saintach Multi-faceted International Course System”, a distinctive curriculum system designed for preschool students that blends elements from both traditional Chinese culture and modern, developmental educational approaches. In addition, we have also developed a wide array of preschool educational resources, such as our own preschool teaching materials.

SUMMARY

Summary Business Operating Data of our Schools

The following table sets forth the approximate student enrollment, student capacity and utilization rates of our schools (not including Saintach Tutorial Centers) during the periods indicated:

	Student Enrollment				Student Capacity				Utilization Rate%			
	School Year				School Year				School Year			
	2014-2015	2015-2016	2016-2017	2017-2018	2014-2015	2015-2016	2016-2017	2017-2018	2014-2015	2015-2016	2016-2017	2017-2018
Full-time Students												
Shijiazhuang Institute of Technology												
Junior college program	7,692	7,581	8,647	9,198	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Secondary vocational education program	98	332	1,275	1,898	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal (full-time college students)	7,790	7,913	9,922	11,096	11,328	11,328	11,328	11,328	68.8	69.9	87.6	98.0
Saintach Kindergartens	2,368	1,656	1,756	1,825	2,838	1,757	1,856	1,856	83.4	94.3	94.6	98.3
Subtotal (full-time students)	10,158	9,569	11,678	12,921	14,166	13,085	13,184	13,184	71.7	73.1	88.6	98.0
Part-time Students												
Shijiazhuang Institute of Technology												
Continuing education programs	1,755	1,613	3,142	6,260								
Subtotal (part-time students)	1,755	1,613	3,142	6,260								
Total	11,913	11,182	14,820	19,181								

The following table sets forth information related to Tutoring Hours and enrollment at our Saintach Tutorial Centers in the years ended December 31, 2015, 2016 and 2017:

	Student Enrollment		
	Year ended December 31,		
	2015	2016	2017
Saintach Tutorial Centers			
Number of Tutoring Hours delivered ⁽¹⁾	329,635	337,591	367,752
Number of students tutored	3,710	4,108	4,928
Number of Tutoring Hours delivered per student	88.9	82.2	74.6

Note:

(1) Equivalent to number of Tutoring Hours our tutors delivered to students. One hour delivered to a group of students is still expressed herein as only one hour.

Please see “Business – Our Schools – Student Enrollment and Capacity” in this prospectus for further details.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors: (i) we are a large established private education service provider offering a diverse range of private education services in Hebei Province; (ii) we apply student-centric educational approaches at each level of student development; (iii) we have diversified and recurring income streams allowing us to mitigate against single income stream risks; (iv) we have a highly scalable business model using standardized management; (v) we are well-positioned to benefit from the expected increasing demand for private education in the PRC and the Integrated Area to capture growth opportunities; and (vi) we have an experienced management team with proven track record, complemented by a highly qualified teaching team. Please see “Business – Our Competitive Strengths” in this prospectus for further details.

OUR BUSINESS STRATEGIES

We intend to continue to significantly grow our successful business as a large private education service provider in Hebei Province and the larger Integrated Area. We plan to achieve this goal through the following business strategies: (i) expand our network and increase our market penetration in the Integrated Area, and strengthen our brand and reputation; (ii) optimize and diversify our education services and widen our revenue base; (iii) enhance our profitability by optimizing our pricing ability and increase student enrollment at our schools; (iv) support the professional development of our teachers to improve their teaching quality and skills; and (v) strengthen international cooperation with overseas educational institutions and build our presence overseas. Please see “Business – Our Business Strategies” in this prospectus for further details.

SUMMARY

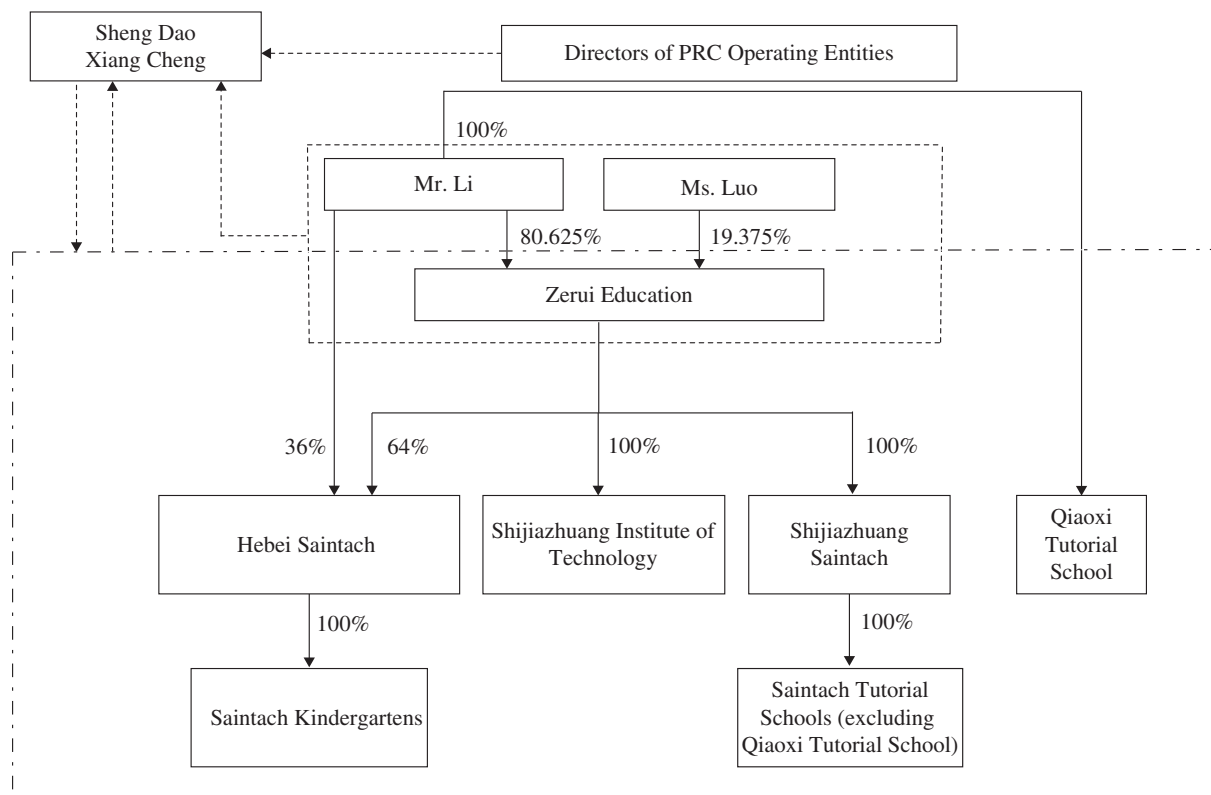
OUR CUSTOMERS AND SUPPLIERS

Our customers primarily consist of (i) our students and their parents, (ii) Lionful Education, on behalf of whom we provide school operation services, and (iii) third-party educational institutions with whom we have cooperated and our franchised kindergartens. For the years ended December 31, 2015, 2016 and 2017, our top five customers accounted for approximately 13.1%, 14.0% and 14.5% of our revenue, respectively. Our largest customer during the Track Record Period was Lionful Education, a related party of our Group which accounted for approximately 12.1%, 12.3% and 10.6% of our total revenue in the years ended December 31, 2015, 2016 and 2017, respectively. Our suppliers primarily comprise food, utilities and property service providers. For the years ended December 31, 2015, 2016 and 2017, purchases recorded in the cost of sales account from our five largest suppliers accounted for approximately 7.7%, 6.3% and 7.5%, respectively, of our cost of sales. Please see “Business – Customers and Suppliers” in this prospectus for further details.

STRUCTURED CONTRACTS

We currently conduct our private education business through our PRC Operating Entities in the PRC where PRC laws, regulations and regulatory practice generally restricts the operation of higher, preschool, academic non-credential and secondary vocational education to Sino-foreign ownership with qualification requirements imposed on the foreign owners. We do not hold any equity interest or school sponsors’ interests in our PRC Operating Entities. The Structured Contracts, through which we obtain control over and derive economic benefits from our PRC Operating Entities, have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations. Please see “Structured Contracts” in this prospectus for further details.

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



Note:

(1) “_____” denotes direct legal and beneficial ownership in the equity interest or school sponsor’s interest.

“-----” denotes Structured Contracts.

“-.-.-.-” denotes our PRC Operating Entities.

Please see “Structured Contracts – Operation of the Structured Contracts” in this prospectus for further details.

SUMMARY

Following the implementation of a “variable interest entity” structure with the execution of the Structured Contracts on October 17, 2017 we are subject to additional amounts of PRC income tax and value-added tax. If such structure had been in effect during the Track Record Period, at least 25% of our schools’ net profit would be required to be retained for the schools’ working capital as development fund and statutory surplus reserve, and profit attributable to Sheng Dao Xiang Cheng would only be approximately 75%. We estimate, based on the prevailing laws and regulations up to date, that in the worst case scenario our net profit would have decreased by approximately 24.0%, 23.9% and 25.1% for the years ended December 31, 2015, 2016 and 2017, respectively. This estimate also takes into account the following major factors: (i) Sheng Dao Xiang Cheng is subject to a 25% enterprise income tax and 6% value-added tax and surcharges; and (ii) the financial results of various entities within our Group. However, as Sheng Dao Xiang Cheng was specifically established to provide exclusive technical and management consultancy services to the PRC Operating Entities under the Structured Contracts, such impact is estimated without taking into consideration potential tax reductions with respect to factors such as the operational costs and expenses primarily comprising employee benefits, rental expenses and other operating-related expenses that were incurred by Sheng Dao Xiang Cheng in the process of providing such services as such mitigating factors cannot be estimated accurately at this moment. The actual impact on our financial results during the Track Record Period, therefore, may not have been as significant as set out above.

Draft Foreign Investment Law

On January 19, 2015, MOFCOM released the Draft Foreign Investment Law and the Explanatory Notes to the Draft Foreign Investment Law for public consultation. Please see “Regulatory Overview – Foreign Investment Law of the PRC (Exposure Draft)” and “Structured Contracts – Draft Foreign Investment Law and the Explanatory Notes” in this prospectus for further details of the Draft Foreign Investment Law and the potential effect to us if the Draft Foreign Investment Law were to become effective in its current form.

Risks Relating to the Structured Contracts

The PRC government may find that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and our business may be materially and adversely affected. Please see “Structured Contracts” in this prospectus for further details. We strongly urge you to read “Risk Factors” in its entirety, including “Risk Factors – Risks Relating to Our Structured Contracts” for details of the risks relating to the Structured Contracts.

THE CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any option(s) that may be granted under the Share Option Scheme is not exercised), our Controlling Shareholders, Mr. Li, Ms. Luo, Sainange Holdings and Sainray Limited, being a group of Controlling Shareholders, will together control the exercise of voting rights of 65% of our Shares eligible to vote in the general meeting of our Company. According to an acting in concert confirmation signed by Mr. Li and Ms. Luo dated December 19, 2016 (as supplemented on September 1, 2017), Mr. Li and Ms. Luo, the mother-in-law of Mr. Li, have been acting in concert since April 2005. Our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and its/his/her respective associates after completion of the Global Offering. Please see “Relationship with Controlling Shareholders” in this prospectus for further details.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth a summary of our financial information for the financial years ended December 31, 2015, 2016 and 2017. The summary financial information has been prepared in accordance with IFRS. You should read this summary together with the consolidated financial information as set forth in Accountants’ Report in Appendix I to this prospectus, including the related notes, as well as the information set forth in “Financial Information” in this prospectus.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Year ended December 31,		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
Revenue	147,294	146,508	169,741
Cost of sales	(87,353)	(78,971)	(93,362)
Gross profit	59,941	67,537	76,379
Other income and gains	12,103	9,417	10,097
Selling and distribution expenses	(7,693)	(7,988)	(8,005)
Administrative expenses	(21,083)	(23,542)	(28,767)
Other expenses	(458)	(270)	(438)
Finance costs	(14,600)	(4,693)	(3,843)
Profit before tax	28,210	40,461	45,423
Income tax expense	(1,474)	(443)	(385)
Profit for the year	26,736	40,018	45,038

SUMMARY

Non-IFRS Measures – Adjusted Net Profit

Adjusted net profit for the year is derived by adding back the listing expenses we incurred in the years ended December 31, 2016 and 2017, which amounted to approximately RMB4,877,000 and RMB11,653,000, respectively, to net profit for the respective year. Adjusted net profit for the year is not prepared in accordance with IFRS. For details regarding reconciliation of adjusted net profit, a non-IFRS measure, to its closest IFRS measure, please see “Financial Information – Key Components of Our Results of Operations – Non-IFRS Measure”.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Adjusted net profit	26,736	44,895	56,691

Consolidated Statements of Financial Position

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Non-current assets	42,812	191,901	183,707
Current assets	304,109	69,643	133,704
Current liabilities	180,601	140,549	158,318
Net current assets/(liabilities)	123,508	(70,906)	(24,614)
Non-current liabilities	20,911	9,068	1,502
Total equity	145,409	111,927	157,591

Consolidated Cash Flow Statements

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities	24,078	76,276	66,477
Net cash flows from/(used in) investing activities . . .	100,140	(7,059)	(40,587)
Net cash flows (used in)/from financing activities . . .	(122,082)	(77,509)	8,693
Net increase/(decrease) in cash and cash equivalents .	2,136	(8,292)	34,583
Cash and cash equivalents			
at beginning of the year	11,476	13,612	5,320
Effect of foreign exchange rate changes, net	–	–	(39)
Cash and cash equivalents			
at the end of the year	13,612	5,320	39,864

Key Financial Ratios

	As of/for the year ended December 31,		
	2015	2016	2017
Net profit margin	18.2%	27.3%	26.5%
Adjusted net profit margin	18.2%	30.6%	33.4%
Return on assets	6.9%	13.2%	15.6%
Adjusted return on assets	6.9%	14.8%	19.6%
Return on equity	22.0%	31.1%	33.4%
Adjusted return on equity	22.0%	34.9%	42.1%
Current ratio	1.68	0.50	0.84
Debt to equity ratios	30.4%	25.9%	N/A
Gearing ratio ⁽¹⁾	39.7%	30.7%	22.3%
Interest coverage ratio	2.93	9.62	12.82

Note:

(1) Gearing ratio equals total interest-bearing bank loans and other borrowings divided by total equity as of the end of the year.

Please see “Financial Information – Key Financial Ratios” in this prospectus for further details.

SUMMARY

The following table sets forth a breakdown of our revenue, gross profit and gross profit margin by business segment for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	Amount/ Percentage	% of Total	Amount/ Percentage	% of Total	Amount/ Percentage	% of Total
(RMB'000, except percentages)						
Segments:						
Shijiazhuang Institute of Technology						
Segment revenue	73,547	49.9	79,112	54.0	94,846	55.9
Segment gross profit	43,344	72.3	49,151	72.8	53,501	70.1
Segment gross margin	58.9%	—	62.1%	—	56.4%	—
Saintach Tutorial Centers						
Segment revenue	38,974	26.5	42,547	29.0	45,971	27.1
Segment gross profit	13,519	22.6	13,047	19.3	16,433	21.5
Segment gross margin	34.7%	—	30.7%	—	35.7%	—
Saintach Kindergartens						
Segment revenue	34,773	23.6	24,849	17.0	28,924	17.0
Segment gross profit	3,078	5.1	5,339	7.9	6,445	8.4
Segment gross margin	8.9%	—	21.5%	—	22.3%	—
Total:						
Revenue	147,294	100.0	146,508	100.0	169,741	100.0
Gross profit	59,941	100.0	67,537	100.0	76,379	100.0
Gross margin	40.7%	—	46.1%	—	45.0%	—

Our total revenue decreased slightly from RMB147.3 million for the year ended December 31, 2015 to RMB146.5 million for the year ended December 31, 2016, primarily due to a decrease in revenue from Saintach Kindergartens as a result of our disposal of five self-operated Saintach Kindergartens in January 2016, partially offset by increases in revenue from Shijiazhuang Institute of Technology and Saintach Tutorial Centers. Total revenue increased from RMB146.5 million for the year ended December 31, 2016 to RMB169.7 million for the year ended December 31, 2017, driven by increases in revenue from all of our business segments.

Our gross profit grew steadily over the Track Record Period. Gross profit amounted to RMB59.9 million, RMB67.5 million and RMB76.4 million for the years ended December 31, 2015, 2016 and 2017, respectively. Our gross margin increased significantly from 40.7% for the year ended December 31, 2015 to 46.1% for the year ended December 31, 2016, primarily attributable to increases in gross margin from Shijiazhuang Institute of Technology and Saintach Kindergartens, partially offset by a decrease in gross margin from Saintach Tutorial Centers. Our gross margin decreased slightly from 46.1% for the year ended December 31, 2016 to 45.0% for the year ended December 31, 2017, primarily due to a decrease in gross margin from Shijiazhuang Institute of Technology as a result of increased segment cost of sales related to Shijiazhuang Institute of Technology, partially offset by increases in gross margin from Saintach Tutorial Centers and Saintach Kindergartens.

As of December 31, 2015, we had net current assets of RMB123.5 million. This position changed to net current liabilities of RMB70.9 million as of December 31, 2016, primarily due to (i) settlement of a significant portion of the outstanding amounts owed to us by Lionful Education by our purchase of certain long-term operating assets, including RMB64.0 million for purchase of a parcel of leasehold land and RMB104.9 million for purchase of certain school premises from Lionful Education, and (ii) declaration of a dividend of RMB70.0 million to offset the balances owed by Lionful Education. Our net current liabilities position improved from RMB70.9 million as of December 31, 2016 to RMB24.6 million and RMB11.2 million as of December 31, 2017 and March 31, 2018, respectively. We expect to further improve our net current liabilities position by (i) receiving funds generated from our business operations, (ii) receiving the net proceeds from the Global Offering, and (iii) debt restructuring to reduce the amount of short-term loans by using more long-term loans or cash on hand after Listing to meet our funding needs going forward. Please see “Financial Information – Net Current Assets and Liabilities” in this prospectus for further details.

SUMMARY

Material Adverse Changes to our Financial Results

Our financial results will be adversely affected by our listing expenses, which is a non-recurring item, and full contributions to the social insurance plans and housing provident fund for our employees which we began paying in full in August 2017. Please see “Business – Legal Proceedings and Compliance” for further details.

RECENT DEVELOPMENTS

On November 7, 2016, the Standing Committee of the NPC passed the Amendment Decision, which took effect on September 1, 2017. Pursuant to the Amendment Decision, the school sponsors of a private school which provides education services other than compulsory education may choose for the school to be a for-profit private school or a non-profit private school with effect from September 1, 2017.

In addition to the Amendment Decision, certain implementing rules were jointly promulgated by certain governmental departments at state level in December 2016. The detailed rules and regulations regarding the conversion of existing private schools into for-profit or non-profit schools shall be promulgated by the local provincial government authorities. The People’s Government of Hebei Province issued the Implementation Opinions on Encouraging Social Support to Promote the Healthy Development of Private Education by the People’s Government of Hebei Province (《河北省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) on January 3, 2018, which introduced a five-year interim period during which time the existing administrative measures should still apply to the existing private schools until September 1, 2022. However, such opinions did not expressly stipulate a specific way for the existing private schools to choose as a for-profit or non-profit school. There are uncertainties involved in interpreting and implementing the Amendment Decision with respect to various aspects of the operations of our schools, especially procedures to be undergone for a school to become a for-profit school or non-profit school. Please see “Regulatory Overview – The Latest Development of Private School Regulations” in this prospectus for further details.

Under the existing regulatory environment and based on the current interpretation of the Amendment Decision and the relevant implementing measures, we intend to register the schools we currently own and the schools we plan to open and operate as for-profit schools after the Amendment Decision and its implementing measures become practicable, and the detailed local rules and regulations regarding the conversion of existing schools are promulgated by relevant local authorities and take effect. We are unable to fully evaluate at this stage the potential impact of such regulatory charges on our operations, such as tax liabilities our schools may be exposed to if we choose for our schools to be for-profit private schools, and public funding our schools may be able to receive. Please see “Risk Factors – Risks Relating to Our Business and Our Industry – New legislation or changes in the PRC regulatory requirements regarding private education may affect our business operations and prospects,” “Risk Factors – Risks Relating to Conducting Business in China – The discontinuation of any preferential tax treatment currently available to us, in particular the tax exempt status of our schools, could materially and adversely affect our results of operations” and “Business – The Decision on Amending the Private Schools Promotion Law” for further details on the impact on our schools’ preferential tax treatment. Each of our Shijiazhuang Institute of Technology and the three Saintach Kindergartens which enjoy preferential tax treatment has obtained a confirmation letter from a competent authority confirming that the existing preferential tax treatment will remain unchanged during the interim period. We will establish and assign the responsibility to a special committee led by Mr. Liu Zhanjie, our chief executive officer and executive Director, to pay close attention to rules and regulations to be promulgated by relevant authorities at all levels regarding interpreting and implementing the Amendment Decision. We will consult with our PRC Legal Advisor when such rules and regulations are promulgated regarding the potential impact on all aspects of operation of our schools and make relevant public announcements when appropriate.

Our Directors confirm that since December 31, 2017 (being the date on which the latest audited consolidated financial information of our Group was prepared) and up to the date of this prospectus, there had been no material adverse change in the industry in which we operate or in the financial or trading position of our Group that would materially affect the information shown in our consolidated financial statements included in the Accountants’ Report of the Group set forth in Appendix I to this prospectus. During the same periods, our results of operations were largely in line with our expectations. Please see “Industry Overview” and “Financial Information” for further details of the industry and our results of operation.

SUMMARY

LISTING EXPENSES

The listing expenses in connection with the Global Offering (before exercise of the Over-allotment Option) are estimated to be approximately RMB40.0 million which comprise approximately RMB8.4 million underwriting commission and approximately RMB31.6 million other expenses, assuming an Offer Price of HK\$0.96 per Offer Share, being the mid-point of the indicative Offer Price range. During the Track Record Period, we incurred listing expenses of approximately RMB20.8 million, of which approximately RMB16.5 million was charged to our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, while the remaining amount of approximately RMB4.3 million was recorded as deferred listing expenses and will be capitalized and deducted from the share premium upon the completion of the Global Offering. We expect to further incur underwriting commission and other listing expenses of approximately RMB19.2 million (including the underwriting commission of approximately RMB8.4 million) upon the completion of the Global Offering (before exercise of the Over-allotment Option), out of which approximately RMB7.5 million will be charged to the consolidated statement of profit or loss and other comprehensive income, and approximately RMB11.7 million will be deducted from the share premium.

DIVIDENDS

Our Company has no fixed dividend policy specifying a dividend payout ratio. As our Company is a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries and, particularly, our PRC Operating Entities, which are primarily incorporated in the PRC. In the year ended December 31, 2016, a dividend of RMB70.0 million was declared by Shijiazhuang Institute of Technology which was settled by offsetting with its balances due from Lionful Education as of December 31, 2016. Our PRC Operating Entities must comply with their respective constitutional documents and the laws and regulations of the PRC in declaring and paying dividends to us. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. With the approval from our Shareholders, our Company may also declare dividends out of our share premium account. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. Please see “Financial Information – Dividends” in this prospectus for further details.

OFFERING STATISTICS

	Based on the Offer Price of HK\$0.79 per Offer Share	Based on the Offer Price of HK\$1.13 per Offer Share
Market capitalization upon completion of the Listing (HK\$)	948.0 million	1,356.0 million
Unaudited pro forma adjusted consolidated net tangible assets per Share (HK\$)	0.37	0.47

Notes:

- (1) The calculation of market capitalization is based on 1,200,000,000 Shares expected to be in issue immediately upon completion of the Capitalization Issue and the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share includes adjustments referred to in “A. Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets” in Appendix II to this prospectus and on the basis of 1,200,000,000 Shares in issue at the Offer Price of HK\$0.79 and HK\$1.13 per Offer Share immediately following the completion of the Capitalization Issue and the Global Offering.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$318.0 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated listing expenses payable by us and assuming the initial public Offer Price of HK\$0.96 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. If the Over-allotment Option is exercised in full, we estimate that our additional net proceeds from the offering of these additional Shares will be approximately HK\$50.5 million, after deducting the underwriting commissions and other estimated listing expenses, assuming an Offer Price of HK\$0.96 per Share.

SUMMARY

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

- approximately 40%, or HK\$127.2 million, is expected to be used to acquire and rebrand third party kindergartens in order to expand our Saintach Kindergarten network in the Integrated Area by the end of 2020. When selecting an acquisition target, we will consider factors that include, among other things, school location, demographics in the area, condition of school facilities, number of existing students, historical performance of the schools, strategic value in expanding into the area, qualifications and quality of the teaching staff, and total acquisition and conversion costs. As of the Latest Practicable Date, we had not identified any specific acquisition targets;
- approximately 20%, or HK\$63.6 million, is expected to be used to expand our Saintach Tutorial Center network in the Integrated Area through acquisition of third party tutorial schools primarily engaged in providing small-group tutoring services by the end of 2020. When selecting an acquisition target, we will consider factors include, among other things, school location, demographics in the area, condition of school facilities, number of existing students, historical performance of the schools, qualifications and quality of the teaching staff, and total acquisition and conversion costs. As of the Latest Practicable Date, we had not identified any specific acquisition targets;
- approximately 20%, or HK\$63.6 million, is expected to be used to maintain, renovate and upgrade the facilities of our schools and tutorial centers and improve the student accommodation conditions of Shijiazhuang Institute of Technology;
- approximately 10%, or HK\$31.8 million, is expected to be used to establish our presence overseas and obtain experience in operating schools abroad; and
- approximately 10%, or HK\$31.8 million, is expected to be used to fund our working capital and general corporate purposes.

Please see “Future Plans and Use of Proceeds” in this prospectus for details.

RISK FACTORS

We believe that there are certain risks and uncertainties involved in our operations, some of which are beyond our control. Major risks we face include, but are not limited to, the following: (i) our business and results of operations to a large extent depend on the level of tuition we are able to charge at our schools and tutorial centers and our ability to maintain and raise our tuition; (ii) our Shijiazhuang Institute of Technology currently provides college operation services on behalf of Lionful Education to the west campus of Sifang College, and if such arrangement ceased, our business, financial position and results of operations may be materially and adversely affected; (iii) we are exposed to geographical concentration risks as all of our schools and tutorial centers are currently located in a single city; (iv) our business depends on our ability to recruit and retain dedicated and qualified teachers and other school personnel; (v) if we are not able to execute our growth strategies or manage our growth effectively, our ability to capitalize on new business opportunities would be hindered; and (vi) our business is heavily dependent on the market recognition of our “Saintach” brand. Please see “Risk Factors” in this prospectus for a detailed discussion of these and other risks we face.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period, we were not compliant with certain relevant PRC legal requirements for making contributions to social insurance plans and housing provident fund with respect to our employees. Please see “Business – Legal Proceedings and Compliance” in this prospectus for further details.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings.

“21st Century Education (HK)”	21st Century Education (HK) Investment Limited (香港21世紀教育投資有限公司), a limited liability company incorporated under the laws of Hong Kong on November 1, 2016 and a wholly-owned subsidiary of our Company
“affiliate(s)”	with respect to any specific person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Amendment Decision”	the Decision of the Standing Committee of the NPC on Amending the Private Schools Promotion Law (全國人民代表大會常務委員會關於修改<中華人民共和國民辦教育促進法>的決定), which was promulgated on November 2016, and came into force on September 1, 2017
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any one of them, to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company conditionally adopted on May 4, 2018 and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Beijing Saintach”	Beijing Saintach Education and Technology Co., Ltd.* (北京新天際教育科技有限公司), a limited liability company established under the laws of the PRC on April 8, 2011 and deregistered on November 9, 2016, and ultimately controlled by Mr. Li and Ms. Luo during its terms of business
“Blue Crystal Kindergarten”	Shijiazhuang City Qiaoxi District Blue Crystal Saintach Kindergarten* (石家莊市橋西區新天際藍水晶幼兒園, previously known as Shijiazhuang City Qiaodong District Saintach Bilingual Kindergarten* (石家莊市橋東區新天際雙語幼兒園)), a private school established under the laws of the PRC on January 4, 2011 of which the school sponsor’s interest is wholly-owned by Hebei Saintach as of the Latest Practicable Date and one of our PRC Operating Entities
“Board” or “Board of Directors”	the board of Directors

DEFINITIONS

“BPPE”	California Bureau for Private Postsecondary Education, a unit of the California Department of Consumer Affairs in charge of regulation of private postsecondary educational institutions operating in the state of California, the United States
“Business Cooperation Agreement”	the business cooperation agreement entered into among Sheng Dao Xiang Cheng, each of our PRC Operating Entities, Ms. Luo and Mr. Li dated October 17, 2017
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of the Company as set out in “A. Further Information about our Company – 4. Written resolutions of our Shareholders passed on May 4, 2018” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, or a CCASS Custodian Participant or a CCASS Investor Participant
“Chang’an Tutorial School”	Shijiazhuang City Chang’an District Saintach Tutorial School* (石家莊市長安區新天際培訓學校), a private school established under the laws of the PRC on April 20, 2010 of which the school sponsor’s interest is wholly-owned by Shijiazhuang Saintach as of the Latest Practicable Date and one of our PRC Operating Entities, providing tutoring services at its own school campus and other three tutorial centers under its operation

DEFINITIONS

“China” or “PRC”	the People’s Republic of China excluding for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region and Taiwan
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time
“Company” or “our Company” or “21st Century Education”	China 21st Century Education Group Limited (中國21世紀教育集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on September 20, 2016
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of our Company, namely Mr. Li, Ms. Luo (who has been acting in concert with Mr. Li in connection with their interests in our Group since April 2005), Sainange Holdings and Sainray Limited
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Corporate Reorganization”	the corporate reorganization of our Group conducted in preparation for the Listing, details of which are set out in “History and Corporate Structure – Corporate Reorganization” in this prospectus
“Deed of Indemnity”	a deed of indemnity dated May 4, 2018 entered into by our Controlling Shareholders in favor of our Company (for ourselves and as trustee for our subsidiaries) in respect of, among other things, certain indemnities, further details of which are set out in “G. Other Information – 1. Deed of Indemnity” in Appendix V to this prospectus
“Director(s)”	the directors of our Company
“Directors’ Powers of Attorney”	the school director’s power of attorney executed by each of the directors of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens in favor of Sheng Dao Xiang Cheng dated October 17, 2017

DEFINITIONS

“Donggang Tutorial School”	Shijiazhuang Yuhua District Donggang Road Saintach Tutorial School* (石家莊市裕華區東崗路新天際培訓學校), a private school established under the laws of the PRC on February 1, 2016 of which the school sponsor’s interest is wholly-owned by Shijiazhuang Saintach as of the Latest Practicable Date and one of our PRC Operating Entities, providing tutoring services at its own school campus and another tutorial center under its operation
“Draft Foreign Investment Law”	the draft version of the Foreign Investment Law* (中華人民共和國外國投資法(草案徵求意見稿)) issued by MOFCOM on January 19, 2015 for public consultation
“EIT Law”	the PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法) adopted by the National People’s Congress on March 16, 2007 and become effective on January 1, 2008
“Equity Pledge Agreements”	the equity pledge agreements dated October 17, 2017, entered into (i) among Sheng Dao Xiang Cheng, Mr. Li, Ms. Luo and Zerui Education, in relation to the pledge of equity interest in Zerui Education; (ii) among Sheng Dao Xiang Cheng, Mr. Li, Zerui Education and Hebei Saintach, in relation to the pledge of equity interest in Hebei Saintach, and (iii) among Sheng Dao Xiang Cheng, Zerui Education and Shijiazhuang Saintach, in relation to the pledge of equity interest in Shijiazhuang Saintach
“Exclusive Call Option Agreements”	the exclusive call option agreements dated October 17, 2017, entered into (i) among Sheng Dao Xiang Cheng, Mr. Li, Hebei Saintach, Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School, in relation to the exclusive call option of the school sponsor’s interest in Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School; and (ii) among Sheng Dao Xiang Cheng, Mr. Li, Ms. Luo and our PRC Operating Entities (excluding Qiaoxi Tutorial School), in relation to the exclusive call option of the equity interest in Zerui Education, Hebei Saintach and Shijiazhuang Saintach
“Exclusive Service Agreement”	the exclusive technical service and management consultancy agreement entered into by and among Sheng Dao Xiang Cheng and our PRC Operating Entities dated October 17, 2017
“Foreign Investment Catalogue”	the Catalogue for the Guidance of Foreign Investment Industries (2017 version) 《外商投資產業指導目錄(2017)》, which was promulgated jointly by the MOFCOM and the NDRC on June 28, 2017 and became effective from July 28, 2017 and is amended from time to time
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party

DEFINITIONS

“Frost & Sullivan Report”	an independent market research report commissioned by our Company on the PRC private education market and prepared by Frost & Sullivan, as referred to in “Industry Overview”
“Fukang Kindergarten”	Shijiazhuang Luquan District Fukang Saintach Kindergarten* (石家莊市鹿泉區新天際福康幼兒園, previously known as Luquan City Saintach Fukang Kindergarten* (鹿泉市新天際福康幼兒園)), a private school established under the laws of the PRC on October 12, 2012 of which the school sponsor’s interest is wholly-owned by Hebei Saintach as of the Latest Practicable Date and one of our PRC Operating Entities
“Fumenli Kindergarten”	Zhengding County Fumenli Saintach Kindergarten* (正定縣新天際福門裡幼兒園), a private school established under the laws of the PRC on April 29, 2015 of which the school sponsor’s interest is wholly-owned by Hebei Saintach as of the Latest Practicable Date and one of our PRC Operating Entities
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider designated by our Company
“Group”, “our Group”, “we” or “us”	our Company, its subsidiaries, our PRC Operating Entities and Infirmary of Shijiazhuang Institute of Technology from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group or (as the case may be) their predecessors, at the relevant time
“Hebei Saintach”	Hebei Saintach Education and Technology Co., Ltd.* (河北新天際教育科技有限公司), a limited liability company established under the laws of the PRC on September 17, 2002, owned as to 64% by Zerui Education and 36% by Mr. Li as of the Latest Practicable Date and one of our PRC Operating Entities
“Hebei Xue You Fang”	Hebei Xue You Fang Education Technology Co., Ltd.* (河北學有方教育科技有限公司), a limited liability company established under the laws of the PRC with limited liability on August 4, 2016 and owned as to 81% by Mr. Li and 19% by Ms. Luo as of the Latest Practicable Date
“High-tech Zone Tutorial School”	Shijiazhuang City High-tech Zone Saintach Tutorial School* (石家莊市高新區新天際培訓學校), a private school established under the laws of PRC on December 19, 2016 of which the school sponsor’s interest is wholly-owned by Shijiazhuang Saintach as of the Latest Practicable Date and one of our PRC Operating Entities, providing tutoring services at its own school campus

DEFINITIONS

“HK\$”, “Hong Kong dollar(s)”, “HKD” or “cents”	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited
“Hong Kong Offer Share(s)”	the 36,000,000 Shares being made available by our Company for subscription pursuant to the Hong Kong Public Offering, subject to adjustment as described in “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms, as further described in “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Takeovers Code” or “Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated May 14, 2018, relating to the Hong Kong Public Offering of our Company, entered into by, among others, our Company, Sole Global Coordinator, and the Hong Kong Underwriters, as further described in “Underwriting” in this prospectus
“Huixuan Tutorial School”	Shijiazhuang City Xinhua District Huixuan Education Tutorial School* (石家莊市新華區慧軒教育培訓學校), a private school established under the laws of the PRC on August 3, 2016 of which the school sponsor’s interest is wholly-owned by Shijiazhuang Saintach as of the Latest Practicable Date and one of our PRC Operating Entities, providing tutoring services at its own school campus

DEFINITIONS

“IFRS”	the International Financial Reporting Standard(s)
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or Substantial Shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“Infirmary of Shijiazhuang Institute of Technology”	Infirmary (Luquan) of Shijiazhuang Institute of Technology* (石家莊理工職業學院(鹿泉)醫務室), an infirmary established under the laws of the PRC on August 24, 2012 and a wholly-owned subsidiary of Shijiazhuang Institute of Technology
“International Placing”	the conditional placing by the International Underwriters of the International Placing Shares for cash at the Offer Price plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in “Structure and Conditions of the Global Offering” in this prospectus, on and subject to the terms and conditions stated herein and in the International Underwriting Agreement
“International Placing Share(s)”	the 324,000,000 new Shares initially offered by our Company for subscription at the Offer Price under the International Placing (subject to adjustment as described in “Structure and Conditions of the Global Offering” in this prospectus) together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option
“International Underwriting Agreement”	the conditional placing and underwriting agreement relating to the International Placing and to be entered into by, among others, our Company, the Sole Global Coordinator and the International Underwriters, on or about the Price Determination Date
“International Underwriters”	the underwriters of the International Placing
“Jianhua Kindergarten”	Shijiazhuang City Chang’an District Jianhua Saintach Kindergarten* (石家莊市長安區新天際建華幼兒園), a private school established under the laws of the PRC on March 7, 2014 of which the school sponsor’s interest is wholly-owned by Hebei Saintach as of the Latest Practicable Date and one of our PRC Operating Entities
“Joint Bookrunners”	China Securities (International) Corporate Finance Company Limited, Head & Shoulders Securities Limited, Morton Securities Limited, ABCI Capital Limited and First Capital Securities Limited

DEFINITIONS

“Joint Lead Managers”	China Securities (International) Corporate Finance Company Limited, Head & Shoulders Securities Limited, Morton Securities Limited, ABCI Securities Company Limited, First Capital Securities Limited, First Shanghai Securities Limited and Founder Securities (Hong Kong) Limited
“Latest Practicable Date”	May 6, 2018, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“Lidu Kindergarten”	Shijiazhuang City Qiaoxi District Lidu Saintach Kindergarten* (石家莊市橋西區新天際麗都幼兒園), a private school established under the laws of the PRC on June 29, 2015 of which the school sponsor’s interest is wholly-owned by Hebei Saintach as of the Latest Practicable Date and one of our PRC Operating Entities
“Lionful Education”	Hebei Lionful Education Investment Co., Ltd.* (河北廿一世紀教育投資有限公司), a limited liability company established under the laws of the PRC on November 2, 2000, which is directly owned as to 43% by Mr. Li and 57% by Hebei Xue You Fang Education Technology Co., Ltd.* (河北學有方教育科技有限公司, a limited liability company established under the laws of the PRC with limited liability on August 4, 2016 and as of the Latest Practicable Date owned as to 81% by Mr. Li and 19% by Ms. Luo) as of the Latest Practicable Date
“Lionful Investment Holding”	Lionful Investment Holding Co., Ltd.* (新聯合投資控股有限公司), a limited liability company established under the laws of the PRC on January 16, 2004 and held by Mr. Li as to 81% and Ms. Luo as to 19% as of the Latest Practicable Date
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about May 29, 2018, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company adopted on May 4, 2018 and as amended from time to time

DEFINITIONS

“MOE”	the Ministry of Education of the PRC (中華人民共和國教育部)
“MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Li”	Mr. Li Yunong (李雨濃), whose former name was Li Desong (李德頌), one of the founders of our Group, one of our Controlling Shareholders, the chairman of the Board and an executive Director and the son-in-law of Ms. Luo
“Ms. Luo”	Ms. Luo Xinlan (羅心蘭), one of the founders of our Group, one of our Controlling Shareholders and the mother-in-law of Mr. Li, who has been acting in concert with Mr. Li in connection with their interests in our Group since April 2005
“National People’s Congress” or “NPC”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“NDRC”	The National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Offer Price”	the final Hong Kong dollar price per Hong Kong Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering, to be determined as further described in “Structure and Conditions of the Global Offering” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares, where relevant including any additional Shares issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters for up to 30 days from the day following the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 54,000,000 additional Shares at the Offer Price, representing approximately 15% of the initial size of the Global Offering, to cover, among other things, over allocations in the International Placing as described in “Structure and Conditions of the Global Offering” in this prospectus

DEFINITIONS

“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People’s Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013, as amended, supplemented or otherwise modified from time to time
“PRC government” or “State”	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
“PRC Operating Entities”	namely, Zerui Education, Shijiazhuang Saintach, Hebei Saintach, Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens
“Price Determination Agreement”	an agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) to fix the Offer Price
“Price Determination Date”	the date, expected to be on or around May 18, 2018 and, in any event, not later than May 25, 2018, on which the Offer Price is to be fixed by agreement between our Company and the Sole Global Coordinator (on behalf of the Hong Kong Underwriters)
“Qiaoxi Tutorial School”	Shijiazhuang City Qiaoxi District Bilingual Culture Tutorial School* (石家莊市橋西區雙語文化培訓學校), a private school established under the laws of the PRC on November 26, 2013 of which the school sponsor’s interest is wholly-owned by Mr. Li and one of our PRC Operating Entities, providing tutoring services at its own school campus
“Qinghui Kindergarten”	Shijiazhuang City Chang’an District Qinghui Saintach Kindergarten* (石家莊市長安區新天際清暉幼兒園), a private school established under the laws of the PRC on March 29, 2013 of which the school sponsor’s interest is wholly-owned by Hebei Saintach as of the Latest Practicable Date and one of our PRC Operating Entities
“Registered Shareholders”	the shareholders of Zerui Education, namely Mr. Li and Ms. Luo
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency for the time being of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration, including local branches, when applicable

DEFINITIONS

“SAIC” or “State Administration for Industry and Commerce”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Sainange Holdings”	Sainange Holdings Company Limited (新安控股有限公司), a limited liability company incorporated under the laws of BVI on August 4, 2016, one of our Controlling Shareholders and wholly owned by Mr. Li
“Sainange Investment”	Sainange Investment Limited (新安投資有限公司), a limited liability company incorporated under the laws of BVI on October 19, 2016 and a wholly-owned subsidiary of our Group
“Sainray Limited”	Sainray Limited (新瑞有限公司), a limited liability company incorporated under the laws of BVI on August 4, 2016, one of our Controlling Shareholders and wholly owned by Ms. Luo
“Saintach Education (HK)”	Saintach Education (HK) Investment Limited (香港新天際教育投資有限公司), a limited liability company incorporated under the laws of Hong Kong on November 3, 2016 and a wholly-owned subsidiary of our Company
“Saintach Kindergartens”	Blue Crystal Kindergarten, Fukang Kindergarten, Jianhua Kindergarten, Lidu Kindergarten, Tianshan Kindergarten, Qinghui Kindergarten, Zhengding Kindergarten and Fumenli Kindergarten
“Saintach Tutorial Centers”	tutorial centers in multiple operating locations which are organized into different Saintach Tutorial Schools
“Saintach Tutorial Schools”	Qiaoxi Tutorial School, Chang’an Tutorial School, Donggang Tutorial School, Zhicheng Tutorial School, High-tech Zone Tutorial School and Huixuan Tutorial School
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“School Sponsors’ and Directors’ Rights Entrustment Agreement”	the school sponsors’ and directors’ rights entrustment agreement entered into among our PRC Operating Entities and the respective directors of Shijiazhuang Institute of Technology, Saintach Kindergartens and Saintach Tutorial Schools, Mr. Li and Sheng Dao Xiang Cheng dated October 17, 2017
“School Sponsors’ Powers of Attorney”	the school sponsor’s power of attorney executed by each of Zerui Education, Hebei Saintach, Shijiazhuang Saintach and Mr. Li, in favor of Sheng Dao Xiang Cheng dated October 17, 2017
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time

DEFINITIONS

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on May 4, 2018, the principal terms of which are summarized in “F. Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Power of Attorney”	the power of attorney executed by each of Zerui Education, Mr. Li and Ms. Luo, in favor of Sheng Dao Xiang Cheng dated October 17, 2017
“Shareholders’ Rights Entrustment Agreement”	the Shareholders’ Rights Entrustment Agreement entered into among Zerui Education, Mr. Li, Ms. Luo, Hebei Saintach, Shijiazhuang Saintach and Sheng Dao Xiang Cheng dated October 17, 2017
“Sheng Dao Xiang Cheng” or “WFOE”	Sheng Dao Xiang Cheng Education and Technology Co., Ltd.* (河北晟道象成教育科技有限公司), a wholly-foreign owned enterprise established under the laws of PRC on December 14, 2016 and a wholly-owned subsidiary of our Company
“Shijiazhuang Institute of Technology”	Shijiazhuang Institute of Technology* (石家莊理工職業學院), a junior college established under the laws of the PRC on July 1, 2003 of which school sponsor’s interest is wholly owned by Zerui Education as of the Latest Practicable Date and one of our PRC Operating Entities
“Shijiazhuang Saintach”	Shijiazhuang Saintach Education and Technology Co., Ltd.* (石家莊新天際教育科技有限公司), a limited liability company established under the laws of the PRC on July 13, 2011, wholly-owned by Zerui Education as of the Latest Practicable Date and one of our PRC Operating Entities
“Sifang College”	Shijiazhuang Tiedao University Sifang College (石家莊鐵道大學四方學院), an institution jointly operated by Shijiazhuang Tiedao University, an Independent Third Party, and Lionful Education which is controlled by our Controlling Shareholders, Mr. Li and Ms. Luo
“Sole Sponsor” or “Sole Global Coordinator”	China Securities (International) Corporate Finance Company Limited, a licensed corporation under the SFO permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
“Spouse Undertakings”	the spouse undertakings executed by the spouse of Mr. Li and the spouse of Ms. Luo dated October 17, 2017, respectively
“sq.m.”	square metre(s)

DEFINITIONS

“Stabilizing Manager”	China Securities (International) Corporate Finance Company Limited
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Sainange Holdings and the Stabilizing Manager (or its agents) on or around the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Structured Contracts”	collectively, the Business Cooperation Agreement, the Exclusive Service Agreement, the Exclusive Call Option Agreements, the Equity Pledge Agreements, the School Sponsors’ and Directors’ Rights Entrustment Agreement, the School Sponsors’ Powers of Attorney, the Directors’ Powers of Attorney, the Shareholders’ Power of Attorney, the Shareholders’ Rights Entrustment Agreement and the Spouse Undertakings, further details of which are set out in “Structured Contracts” in this prospectus
“subsidiary(ies)”	has the meaning ascribed to it in the Listing Rules. For the avoidance of doubt, the subsidiaries include PRC Operating Entities and Infirmary of Shijiazhuang Institute of Technology in this prospectus
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Tianshan Kindergarten”	Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten* (石家莊高新技術產業開發區新天際天山幼兒園), a private school established under the laws of the PRC on May 20, 2013 of which the school sponsor’s interest is wholly-owned by Hebei Saintach as of the Latest Practicable Date and one of our PRC Operating Entities
“Track Record Period”	the years ended December 31, 2015, 2016 and 2017
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollar(s)” or “US\$” or “USD”	United States dollars, the lawful currency for the time being of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder

DEFINITIONS

“Zerui Education”	Hebei Zerui Education Technology Co., Ltd.* (河北澤瑞教育科技有限公司), a limited liability company established under the laws of the PRC on July 12, 2017, owned as to 80.625% by Mr. Li and 19.375% by Ms. Luo as of the Latest Practicable Date, and one of our PRC Operating Entities
“Zhengding Kindergarten”	Zhengding County Saintach Kindergarten* (正定縣新天際幼兒園), a private school established under the laws of the PRC on September 28, 2012 of which the school sponsor’s interest is wholly-owned by Hebei Saintach as of the Latest Practicable Date and one of our PRC Operating Entities
“Zhicheng Tutorial School”	Shijiazhuang City Qiaoxi District Zhicheng Tutorial School* (石家莊市橋西區智城培訓學校, previously known as Shijiazhuang City Qiaodong District Zhicheng Tutorial School* (石家莊市橋東區智城培訓學校)), a private school established under the laws of the PRC on February 26, 2009 of which the school sponsor’s interest is wholly-owned by Shijiazhuang Saintach as of the Latest Practicable Date and one of our PRC Operating Entities, providing tutoring services at its own school campus
“%”	per cent.

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

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into Hong Kong dollars or U.S. dollars at an exchange rate of RMB0.8092 = HK\$1.00 or RMB6.3521 = US\$1.00, respectively, for illustration purpose only. Such conversions shall not be construed as representations that amounts in Renminbi were or could have been or could be converted into Hong Kong dollars or U.S. dollars at such rates or any other exchange rates on such date or any other date.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.*

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

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

“elementary schools” or “primary schools”	schools that provide education for students in grade one through grade six
“first-tier universities”	the first batch of universities that enroll students after the National Higher Education Entrance Exam. Except for students with specialties in arts and sports, among other things, the basic admission requirement for the relevant high school graduates is that they achieved certain level of high scores in the National Higher Education Entrance Exam as designated by the relevant PRC provincial education authorities, and they choose such universities for their college entrance application. Generally, these universities have stronger comprehensive strengths, such as school facilities, academic resources and scientific research capabilities, among other things, and frequently gain special support from the PRC central and local government
“high schools”	schools that provide education for students in grade 10 through grade 12
“Integrated Area”	also known as the Beijing, Tianjin and Hebei Province Integrated Area. The concept of this area was created pursuant to a national strategic initiative to promote the region’s economic development
“junior college education”	a three-year post-high school degree-granting education upon completion of which, a junior college degree will be granted. Junior college students may continue their education by enrolling in a two-year program and transferring some or all of the credit earned at the junior college toward the degree requirements of the formal undergraduate degree
“middle schools”	schools that provide education for students in grade seven through grade nine
“National Higher Education Entrance Exam” or “Gaokao”	a national academic examination held annually in the PRC, which is a prerequisite for entrance into almost all higher educational institutions at the undergraduate level in the PRC
“National Higher Education Entrance Exam for Adults”	a national academic examination for adults held annually in the PRC. Upon achieving required grades in this examination and completion of required courses within specified period after the examination, an adult may apply for a junior college or undergraduate diploma

GLOSSARY OF TECHNICAL TERMS

“one-child policy”	China’s population control policy implemented by the Population and Family Planning Law of the PRC, according to which a family can have only one child, with certain exceptions. The one-child policy was replaced by the two-child policy implemented in 2016
“preschools”	educational establishments offering early childhood education to children prior to the commencement of compulsory education
“private schools”	schools which are not administered by local, provincial or national governments
“public schools”	schools administered by local, provincial or national education authorities
“school sponsor”	the individual(s) or entity(ies) that funds or holds interests in an educational institution
“school year”	the school year for all of our schools, which generally starts on September 1 of each calendar year and ends on June 30 of the next calendar year
“secondary education”	normally takes place after primary education and may be followed by higher education, vocational training or employment
“Tutoring Hour”	the unit for measuring tutoring time delivered to students, typically represents 60 minutes in lengths for secondary school students and 40 minutes in lengths for primary school students
“two-child policy”	China’s population control policy implemented in 2016 by the Decision of the Central Committee of the Communist Party of China and the State Council on Implementing the Universal Two-Child Policy and Reforming and Improving the Management of Family Planning Services 《中共中央、國務院關於實施全面兩孩政策改革完善計劃生育服務管理的決定》, according to which a family is allowed to have up to two children
“Zhongkao”	also known as the Senior High School Entrance Examination, the academic examination held annually in the PRC to distinguish junior high school students

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would”, “wish” and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

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

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Our business and results of operations to a large extent depend on the level of tuition we are able to charge at our schools and tutorial centers and our ability to maintain and raise our tuition.

One of the most significant factors affecting our profitability is the level of tuition (including tutoring fees) we are able to charge at our schools and tutorial centers. For the years ended December 31, 2015, 2016 and 2017, tuition constituted a large portion of our total revenue, representing 80.8%, 79.5% and 78.8% of our total revenue, respectively, while operation service income from providing services to the west campus of Sifang College in relation to school operations and student administration and boarding fees accounted for most of the remainder. Our tuition rates are primarily based on the demand for our education programs, the cost of our operations, the geographic markets where we operate our schools and tutorial centers, the tuition charged by our competitors, our pricing strategy and general economic conditions in China. Our tuition rates are also generally subject to approval or filing with the relevant government pricing authorities in the locations where we operate. Please see “– Governmental pricing authorities may limit our ability to increase the tuition and boarding fees we charge at our schools and/or tutorial centers” in this section for details. There can be no assurance that we will be able to maintain or raise the level of tuition we charge at our schools and tutorial centers in the future due to various reasons, including the failure to obtain necessary approvals or complete required filings, or even if we are able to maintain or raise tuition, we cannot assure you that we will be able to attract sufficient prospective students to apply to our schools and tutorial centers at such increased fee rates. Our business, financial position and results of operations may be materially and adversely affected if we fail to maintain or raise the tuition or attract sufficient prospective students.

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

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

RISK FACTORS

Furthermore, our business performance is sensitive to demographic changes in China. Student enrollment in private education in China is directly affected by the number of potential students in an area, which in turn may be affected by various external factors, including PRC government policies on family planning. Should the PRC government introduce policies that restrict child birth in the future, it could have a negative impact on the growth of the education industry in China, resulting in further competitive pressure on us. This is particularly true with respect to any demographic factors that affect Shijiazhuang, in which all of our schools are located. See “– We are exposed to geographical concentration risks as all of our schools and tutorial centers are currently located in a single city” for further details. According to the Frost & Sullivan Report, growth rates in student enrollment in private preschools in Hebei province and the Integrated Area and in higher education in the Integrated Area in the period from 2017 to 2021 is expected to be slightly lower than growth rates from 2011 to 2017. According to the Frost & Sullivan Report, the number of total students enrolled in private preschools in the Integrated Area is expected to grow at a CAGR of 10.8% from 2017 to 2021, whereas it grew at a CAGR of 12.7% from 2011 to 2017. The number of total students enrolled in private preschools in Hebei is expected to grow at a CAGR of 11.2% from 2017 to 2021, whereas it grew at a CAGR of 13.8% from 2011 to 2017. Similarly, according to the Frost & Sullivan Report, the number of total students enrolled in private higher education in the Integrated Area is expected to grow at a CAGR of 3.4% from 2017 to 2021, whereas it grew at a CAGR of 3.5% from 2011 to 2017. These, or further decreases in rate of growth for student enrollment in private preschools or private higher education could result in increased competitive pressure.

Our Shijiazhuang Institute of Technology currently provides school operation services on behalf of Lionful Education to the west campus of Sifang College. If such arrangement ceased, our business, financial position and results of operations may be materially and adversely affected.

We provide a variety of services on behalf of Lionful Education, our related party, to aid in the school operation and student administration of the west campus of Sifang College according to a 10-year entrustment agreement we entered into with Lionful Education in June 2010. For the years ended December 31, 2015, 2016 and 2017, we generated RMB19.7 million, RMB19.7 million and RMB19.8 million, respectively, from providing college operation services to the west campus of Sifang College, representing 13.4%, 13.4% and 11.7% of our total revenue for the respective periods. Please see “Business – Our Schools – Shijiazhuang Institute of Technology – Ancillary Education Services – School Operation Services to the West Campus of Sifang College” in this prospectus for details. If such cooperative arrangement is not renewed upon expiry or is terminated early for any other reason, we cannot assure you that we will be able to set up similar arrangements with other reputable institutions in a timely fashion or at all, and our business, financial position and results of operations may be materially and adversely affected.

We are exposed to geographical concentration risks as all of our schools and tutorial centers are currently located in a single city.

During the Track Record Period and as of the Latest Practicable Date, all of our 15 schools, including one private college (Shijiazhuang Institute of Technology), six Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and eight Saintach Kindergartens, were located in Shijiazhuang, Hebei Province. In addition, a substantial majority of the students enrolled at our Saintach Tutorial Centers and Saintach Kindergartens came from Shijiazhuang. While we may expand into other cities in the future, we anticipate that the vast majority of our business operations in the foreseeable future will likely be concentrated in Shijiazhuang, and schools in Shijiazhuang will continue to generate a significant majority of our revenue. As such, if any event negatively affecting the education industry in Shijiazhuang occurs, such as negative changes in local government policies relating to private education services, a serious economic downturn, a natural disaster or epidemic, our business, financial condition, result of operations and growth prospects could be materially and adversely affected.

RISK FACTORS

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

We rely substantially on our teachers for the provision of education services to our students. Our teachers are therefore critical to maintaining the quality of our programs and services and to upholding our brand and reputation. As of December 31, 2017, we had an aggregate of approximately 1,830 teachers and staff at our schools and tutorial centers.

We must continue to attract qualified teachers who have a strong command of their respective subject areas to meet our high standards in order to maintain the quality of our education services and further grow our business. We seek to hire teachers who are capable of delivering innovative and inspirational classroom instructions. There are a limited number of teachers with the necessary experience, expertise and qualifications to teach our courses. Similarly, there are a limited number of qualified and experienced school personnel, such as principals, directors and other school administrators, all of whom are crucial to the efficient and smooth running of the schools and tutorial centers we operate. As a result, we have to provide competitive compensation and benefits packages to attract and retain qualified teachers and other school personnel. In addition, we must also provide on-going training to our teachers so that they can stay abreast of changes in industry standards, student demands and other key trends necessary to effectively teach their respective courses.

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

In addition, our future success heavily depends on the continuing services of our executive Directors and senior management team and the principals and directors at our schools and tutorial centers for day-to-day school management. If one or more of our executive Directors, senior management and other key personnel are unable or unwilling to continue their employment with us, we may not be able to replace them with qualified personnel in a timely manner, or at all, and our business may be disrupted and our results of operations and financial condition may be materially and adversely affected. Competition for experienced principals in the private education industry in the PRC is intense and the number of qualified candidates is relatively limited. We may not be able to retain experienced senior management members, principals or other qualified personnel in the future. In the event that we lose their services, or if any of our executive Directors or any member of our senior management team or other key personnel joins our competitor(s) or become our competitor(s), we may not be able to recruit suitable replacements for such personnel, and our business, financial condition and results of operations may be materially and adversely affected as a result.

If we are not able to execute our growth strategies or manage our growth effectively, our ability to capitalize on new business opportunities would be hindered.

Our growth has placed, and will continue to place, significant pressure on our management and resources. In particular, the number of students enrolled in our schools grew from approximately 11,913 as of June 30, 2015 to approximately 14,518 as of June 30, 2017, and further to 19,181 as of December 31, 2017. In addition to continued increases in the size of our student body, we plan to expand our operations significantly in the near future, including:

- opening several new self-operated Saintach Kindergartens in the Integrated Area through acquisition or rebranding of third party kindergartens;

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- opening new tutorial centers in the Integrated Area through acquisition or rebranding of third-party tutorial schools primarily engaged in providing small-group tutoring services; and
- providing management support services to third-party operators and/or investors in the Integrated Area who are interested in establishing and/or operating kindergartens.

To manage and support our growth, we need to continue to strengthen our operational, administrative and technological systems and our financial and management controls, and recruit, train and retain additional qualified teachers and management personnel as well as other administrative and recruitment personnel. All of these endeavors require substantial management resources as well as significant additional expenditures. If we cannot adequately update and strengthen our operational, administrative and technological systems and our financial and management controls to support our future expansion, we may not be able to effectively and efficiently manage the growth of our operations, recruit and retain qualified personnel and integrate entities we establish or acquire into our operations. Any failure to effectively and efficiently manage our expansion may materially and adversely affect our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our business and results of operations. We cannot assure you that we will be able to identify suitable acquisition targets and that our due diligence efforts will reveal all material deficiencies in the target kindergartens and tutorial centers. We may not successfully integrate our operations and the operations of the kindergartens and tutorial centers we acquire in a timely manner, or at all. We may not realize the anticipated benefits or synergies of the acquisitions to the extent, or in the timeframe we had anticipated, which may result in material adverse effects on our business, financial condition and results of operations. We cannot assure you that we will be able to manage or minimize the disruptions to the acquired kindergartens and tutorial centers as a result of a change in management. Failure to do so may result in a material adverse effect on our brand and reputation. We may not successfully integrate our operations and the operations of the kindergartens and tutorial schools we acquire in a timely manner, or at all, and we may not realize the anticipated benefits of the expansion to the extent, or in the timeframe we anticipated, which may have a material adverse effect on our business, reputation, financial condition and results of operations.

In addition, with the aim of building our presence overseas and obtaining operational experience from abroad, we plan to establish and operate an officially recognized residential university authorized to grant master's degrees in business administration and bachelor's degrees in computer science in the state of California, the United States. On December 17, 2016, we entered into a consulting agreement with an international education consultant, who is an Independent Third Party with experience in private post-secondary education in the state of California. We submitted a formal application regarding the establishment of the proposed university to the relevant authorities on August 10, 2017, and are in the process of searching for appropriate school premises as well as suitable management for the operation of the new university, with assistance from the consultant. We have no prior experience establishing and/or operating schools in the United States or elsewhere outside of the PRC, and we may encounter barriers and challenges upon entering into such markets, including failure to obtain relevant regulatory approvals, which may result in delay or inability to carry out our overseas expansion plan. We also plan to hire local administrators and teachers with relevant experience operating a university in California, but we cannot assure you we will be able to identify and hire suitable candidates or that we will be able to work effectively with them. It also may prove more difficult than we expect to attract students to enroll due our lack of market recognition in the region. Furthermore, costs incurred may exceed our current expectations and we may need to make additional investments in developing our school overseas and may not be able to effectively manage our costs or generate sufficient revenue to justify the investment made. We cannot ensure you that establishment of such university abroad will be successful.

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Our business is heavily dependent on the market recognition of our “Saintach” brand.

We operate our tutorial centers and kindergartens under the “Saintach” brand. We believe that the market awareness and reputation of our “Saintach” brand is crucial to the success and growth of our business. Our ability to maintain our reputation depends on a number of factors, some of which are beyond our control. As we continue to grow in size and expand our programs and services, it may become difficult to maintain the quality and consistency of the services we offer, which may lead to diminishing confidence in our brand name.

Numerous factors can potentially impact the reputation of our “Saintach” brand, including, but not limited to, the levels of student and parent satisfaction with our curriculum, our teachers and their teaching quality, the grades achieved by our students, accidents on campus, teacher or student scandals, negative press, disruptions to our education services, failure to pass inspections by government authorities, loss of accreditation, and unauthorized use or infringement of our brand by third parties. In particular, any action of our franchised kindergarten over which we have limited influence (see “Business – Our Schools – Saintach Kindergartens – Franchised Saintach Kindergartens” in this prospectus) that fails to adhere to our standards or otherwise negatively reflects on our brand could damage our reputation. Our ability to monitor the operations of the franchisee is limited. We cannot assure you that such franchisee will operate in strict compliance with the franchise agreement we entered into with it which specified the franchisee’s obligations or otherwise fully adhere to relevant laws and regulations. If the franchisee does not strictly follow the terms of our agreement or otherwise does not comply with our operating policies, procedures or the relevant laws and regulations, diverging in terms of curriculum, teaching materials or level of instructions, or even changing the design or appearance of the kindergarten, our reputation and brand image may be negatively affected. If our reputation is damaged, students’ and parents’ interest in our kindergartens and tutorial centers may decrease and our business, financial condition and/or results of operations could be materially and adversely affected.

In addition, we have developed our student base in part through word-of-mouth referrals. We cannot assure you that our marketing efforts will be successful or sufficient in further promoting our brand or in helping us remain competitive. If we are unable to further enhance our reputation and increase market awareness of our programs and services, or if we are required to incur substantial marketing and promotional expenses in order to remain competitive, our business, financial condition and results of operations may be materially and adversely affected.

Furthermore, our schools may also not be able to meet our students’ and their parents’ expectations in terms of students’ academic performance, or to ensure that students of our tutorial centers would be accepted by top-tier middle schools, high schools or universities of their choice, or to ensure that our graduates of Shijiazhuang Institute of Technology would be able to find a job to their liking. A student may not be able to achieve his or her expected academic results and/or other achievements and at any time his or her performance may decline due to reasons beyond our control. There is no assurance that we can provide learning experiences that are satisfactory to all of our students. Student and parent satisfaction with our education programs may decline. We may also experience negative publicity or a decrease in word-of-mouth referrals. Any such negative developments could result in students withdrawing from or becoming unwilling to apply for our schools and tutorial centers, and therefore have an adverse impact on our brand name and reputation. If we are unable to maintain or sustain our brand name and recognition, we may also be unable to maintain or increase student enrollment, which may have a material adverse effect on our business, financial condition and results of operations.

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Governmental pricing authorities may limit our ability to increase the tuition and boarding fees we charge at our schools and/or tutorial centers.

Under the Interim Measures for the Management of the Collection of Private Education Fees promulgated by the PRC government authorities on March 2, 2005, the types and amounts of fees charged by a private school providing educational qualifications must be approved by or record-filed with the relevant governmental pricing authority. Adjustments to fees charged at our schools and tutorial centers (other than Shijiazhuang Institute of Technology) do not require governmental approvals but must be record-filed with the relevant local pricing bureaus in Shijiazhuang, Hebei Province. None of our schools has ever adjusted its fees without proper pricing authority approval or record-filing, and we do not intend to adjust our tuition and other fees without making the requisite filings and obtaining the required approvals in the future. There can be no assurance that the relevant governmental pricing authorities will approve any future applications to raise our tuition in a timely manner or at all. If the governmental pricing authorities were to disapprove our applications, or otherwise limit our ability to increase tuition at our schools in a timely manner, our business, financial condition and results of operation may be materially and adversely affected.

We face potential risks relating to third party kindergartens to which we provide management support services.

As part of our strategy to diversify our education services, we plan to provide management support services to third party operators and/or investors in the Integrated Area who are interested in establishing and/or operating kindergartens which do not use our brand. Such services would take the form of professional training, consulting and guidance involving various aspects related to the establishment and operation of new kindergartens, including, among others, site selection, feasibility studies, curriculum formulation and implementation, and student recruitment strategies. As of the Latest Practicable Date, we had entered into consulting service agreements with 10 potential individual investors looking to invest in the kindergarten market. Please see “Business – Our Schools – Saintach Kindergartens – Additional Services” in this prospectus for details. We cannot assure you that our providing service to such third-party kindergartens will not affect demand for our own kindergartens. In particular, we cannot assure you that our ability to attract parents and students to choose our kindergarten programs would not be negatively affected if the third party kindergartens to which we provide management support services violate the restrictive clauses under the consulting service agreements and operate or market using our “Saintach” brand or in areas in which they would compete with us directly. If this takes place, our business, reputation, financial condition and results of operations could be adversely affected.

As we provide our Saintach Kindergartens with meal catering services by ourselves and our Shijiazhuang Institute of Technology outsources such services to an Independent Third Party, we may be exposed to potential liabilities if we or the third-party service provider cannot maintain food quality standards, which could adversely and materially affect our business.

As we provide meal catering services by ourselves at each of our Saintach Kindergartens, we may be exposed to potential liabilities if we were not able to maintain food quality standards. We cannot assure you that we will always meet the changing food quality standards and maintain proper operations of our canteens at our kindergartens. In addition, for Shijiazhuang Institute of Technology, we have outsourced meal catering services to an Independent Third Party which operates the canteens on our campus for our teachers and students. While we have implemented internal control measures over the qualification of such service provider, it is impracticable for us to monitor the day-to-day operations of our service provider. As such, we cannot assure you that incidents and other issues caused by poor food quality will not occur in the future and, if we are unable to manage these incidents effectively, our teachers’ and students’ health could suffer and medical emergencies could potentially occur. These eventualities could seriously damage our reputation and affect our student enrollment, which would have a material adverse effect on our business, financial condition and results of operations.

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

We are required to obtain and maintain various approvals, licenses and permits and fulfill registration and filing requirements in order to conduct our education services and operate our schools and tutorial centers. For instance, to establish and operate a school or a tutorial center, we are required to obtain a private school operation permit from the local education bureau and to register with the local civil affairs bureau or industry and commerce department to obtain a certificate of registration for a privately run non-enterprise unit or legal entity.

There can be no assurance that we will be able to obtain all required permits and complete all necessary filings, renewals and registrations on a timely basis for our schools and tutorial centers given the significant amount of discretion the local PRC authorities and, with respect to our proposed establishment of a resident university in the state of California, the United States, foreign authorities, may have in interpreting, implementing and enforcing relevant rules and regulations, as well as other factors beyond our control and anticipation. If we fail to receive required permits in a timely manner or obtain or renew any permits and certificates, we may be subject to fines, confiscation of the gains derived from our noncompliant operations, suspension of our noncompliant operations or claims for compensation of any economic loss suffered by our students or other relevant parties, which may materially and adversely affect our business and results of operations.

We used personal bank accounts for the settlement of corporate funds, which may subject us to penalties.

During the Track Record Period, we used 10 personal bank accounts of employees to facilitate certain operations of our schools and tutorial centers. Our PRC Legal Advisor, Jingtian & Gongcheng, has advised us that the use of the personal bank accounts for the settlement of corporate funds was not in compliance with the relevant PRC laws and regulations and that we may be subject to a warning or fine ranging between RMB5,000 to RMB30,000. Our Directors confirmed that the prior use of the personal bank accounts and the activities of the parties concerned did not involve any illegal income. As of November 30, 2016, we had ceased the use of all personal bank accounts for the settlement of corporate funds. Please see “Business – Internal Control” in this prospectus for further details. As of the Latest Practicable Date, no fine or other penalties had been imposed by the relevant government authorities with respect to our prior use of the personal bank accounts to settle corporate funds. However, we cannot assure you that we will not be subject to fines or other penalties due to our prior use of the personal bank accounts for the settlement of corporate funds, which may materially and adversely affect our business, financial condition and results of operations.

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

We have experienced growth in revenue during the Track Record Period. Our historical growth was driven by the increases in the number of students enrolled at our schools, the level of tuition and boarding fees we charged, as well as the service income generated from the west campus of Sifang College. Our financial condition and results of operations may fluctuate due to a number of other factors, many of which are beyond our control, including:

- our ability to maintain and increase student enrollment at our schools and maintain and raise tuition and boarding fees;
- general economic and social conditions and government regulations or actions pertaining to the provision of private education in the PRC;

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- increased competition and market perception and acceptance of any of our newly introduced education programs in any given year;
- expansion and related costs in a given period;
- shifts in attitude towards private education in the PRC from students and their parents; and
- our ability to control our cost of sales and other operating costs, and enhance our operational efficiency.

In addition, we may not be able to continually increase the number of students admitted to the schools we operate due to our limited capacity, and we may not be as successful in carrying out our growth strategies and expansion plans.

Moreover, we may not sustain our past growth rates in future periods, and we may not sustain profitability on a quarterly, interim or annual basis in the future. Our historical results, growth rates and profitability may not be indicative of our future performance. Our Shares could be subject to significant price volatility should our earnings fail to meet the expectations of the investment community. Any of these events could cause the price of our Shares to materially decrease.

Our business may be subject to seasonal fluctuations, which may cause our operating results to fluctuate from quarter to quarter.

We generally require students of Shijiazhuang Institute of Technology to pay tuition and boarding fees for the entire school year up front prior to the commencement of the school year, while we recognize revenue proportionately over the relevant period of our programs. In addition, our Saintach Tutorial Centers generally experience an increase in revenue in the second quarter of each year as students choose to receive more tutoring prior to the Zhongkao and the Gaokao which normally occur in June. Our Saintach Kindergartens also generally experience a decrease in revenue in the first and third quarters of each year. This decrease is primarily due to a decrease in the amount of tuition received as a result of insufficient student attendance during the Chinese New Year period and the summer holidays. Accordingly, we have experienced, and expect to continue to experience, seasonal fluctuations in our results of operations, primarily due to seasonal changes in service days and student enrollment. However, our costs and expenses vary significantly and do not necessarily correspond with the recognition of our revenue. We expect fluctuations in our revenue and results of operations to continue. These fluctuations could result in volatility and adversely affect the price of our Shares.

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

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

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tuition by itself while a non-profit private school shall collect tuition pursuant to the measures stipulated by the provincial governments. In addition, the People's Government of Hebei Province issued the Implementation Opinions on Encouraging Social Support to Promote the Healthy Development of Private Education in January 2018, which introduced a five-year interim period during which time the existing administrative measures should still apply to the existing private schools until September 1, 2022. However, such opinions did not expressly stipulate a specific way for the existing private schools to choose as a for-profit or non-profit school. Please see "Regulatory Overview – Private Education – The Latest Development of Private School Regulations" and "Summary – Recent Developments" in this prospectus for further details. As uncertainties exist with respect to the interpretation and enforcement of new and existing laws and regulations that may be proposed, we cannot assure you that we will be in compliance with these or any other new rules and regulations, interpretation of which may remain uncertain, or that we would be able to efficiently change our business practice in line with any new regulatory environment. Any such failure could materially and adversely affect our business, financial condition and results of operations.

Notably, with respect to the tax implications of the Amendment Decision, we cannot assure you that the tax exempt status of our schools will not be changed. The taxation policies applicable to for-profit private schools after the effective date of the Amendment Decision have yet to be introduced. Therefore, the preferential tax treatment of our schools after the Amendment Decision comes into full force will be subject to (i) the decision we make to operate our schools as for-profit or non-profit schools, and (ii) the tax treatment of the for-profit schools, which is expected to be further stipulated in the regulations related to the Amendment Decision that are to be introduced. There is no guarantee that the preferential tax treatment that currently applies to our schools will not be affected by changes to taxation policies applicable to for-profit private schools relating to the Amendment Decision. For the years ended December 31, 2015, 2016 and 2017, the effective tax rate of our Group was 5.2%, 1.1% and 0.8%, respectively. The average effective tax rate, which is calculated by averaging the effective tax rate during the Track Record Period, was 2.4%. On the assumption that such average effective tax rate continues to apply in the future, to the extent all of our schools and tutorial centers would be subject to the corporate tax rate of 25.0%, our net profit would be expected to decrease by approximately 23.5%.

We maintain limited insurance coverage.

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

We recorded net current liabilities as of December 31, 2016 and 2017 and may record net current liabilities in the future.

As of December 31, 2016 and 2017, we recorded net current liabilities of RMB70.9 million and RMB24.6 million, respectively, primarily due to a decrease in amounts due from related parties.

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We had net current liabilities as of December 31, 2016 compared with net current assets as of December 31, 2015, primarily because (i) we settled a significant portion of the outstanding amounts owed to us by Lionful Education through purchase of certain non-current operating assets, including settling RMB64.0 million through purchase of a parcel of leasehold land and RMB104.9 million through purchase of certain school premises from Lionful Education, and (ii) we declared a dividend of RMB70.0 million to offset the balances owed by Lionful Education. For additional information on our net current liabilities position, please see “Financial Information – Net Current Assets and Liabilities” in this prospectus. While all the amounts due to and from related parties which were unsecured, interest-free and had no fixed term of repayment had been fully settled as of the Latest Practicable Date, we may continue to have net current liabilities in the future as our business expands. We cannot assure you that we will be able to obtain adequate financing to meet our future working capital requirements. In addition, we cannot assure you that we will be able to obtain additional working capital to execute our growth strategies, or that future expansion of our school network will not materially and adversely impact the current or future level of working capital.

Accidents or injuries suffered by our students, our employees or other personnel at our school premises may adversely affect our reputation and subject us to liabilities.

We could be held liable for the accidents or injuries or other harm to students or other people at our schools and tutorial centers, including those caused by or otherwise arising in connection with our school facilities or employees. We could also face claims alleging that we were negligent, provided inadequate maintenance to our school facilities or supervision of our employees and therefore may be held liable for accidents or injuries suffered by our students or other people at our schools and tutorial centers. In addition, if any of our students or teachers commits acts of violence, we could face allegations that we failed to provide adequate security or were otherwise responsible for his or her actions. Our schools and tutorial centers may thus be perceived to be unsafe, which may discourage prospective students from applying to or attending our schools or tutorial centers. Furthermore, our insurance coverage may not be adequate to fully protect us from these kinds of claims and liabilities, and we may not be able to obtain liability insurance in the future at reasonable prices or at all. A liability claim against us or any of our employees could adversely affect our reputation and student enrollment and retention. Even if unsuccessful, such a claim could create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of our management, all of which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We are exposed to credit risk with regard to the potential payment default of Sifang College.

We provide a variety of services on behalf of Lionful Education, our related party, to aid in the school operation and student administration of the west campus of Sifang College. Since May 2002, Lionful Education and Shijiazhuang Tiedao University have jointly operated Sifang College. Lionful Education is entitled to 65% of the tuition revenue generated from the west campus of Sifang College pursuant to a joint cooperation agreement between Lionful Education and Shijiazhuang Tiedao University. In June 2010, as authorized by Shijiazhuang Tiedao University, Lionful Education outsourced such college operation services to Shijiazhuang Institute of Technology pursuant to an entrustment arrangement between Lionful Education and Shijiazhuang Institute of Technology. Pursuant to this arrangement, the entirety of Lionful Education’s 65% of revenue under the joint cooperation agreement is transferred to Shijiazhuang Institute of Technology, and Lionful Education became our largest customer during the Track Record Period, accounting for approximately 12.1%, 12.3% and 10.6%, respectively, of our total revenue for the years ended December 31, 2015, 2016 and 2017. Please see “Business – Our Schools – Shijiazhuang Institute of Technology – Ancillary Education Services – College Operation Services to the West Campus of Sifang College” for details. In addition to credit risk with respect to Lionful Education, as Lionful Education’s obligation to pay to us is conditioned upon their receiving the payment from Sifang College, we may also not be able to receive the payment from Lionful Education if Sifang College fails to make the payment

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to Lionful Education in full or on time. Historically, Sifang College has not defaulted on any payments to Lionful Education under the joint cooperation agreement during the Track Record Period as confirmed by our Directors. However, we cannot assure you that Sifang College will continue to make the payment in full in a timely manner. Any inability to fully collect revenue related to our school operation services could adversely affect our financial condition and results of operations.

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

As of the Latest Practicable Date, we leased 34 properties with a total gross floor area of approximately 87,479 sq.m. for our operations. Please see “Business – Properties” in this prospectus for further details. Such school premises and school buildings and facilities were developed and/or maintained by our landlords. Accordingly, we are not in a position to effectively control the quality, maintenance and management of such premises, buildings and facilities. In the event the quality of the school premises, buildings and facilities deteriorates, or if any or all of our landlords fail to properly maintain and renovate such premises, buildings or facilities in a timely manner, or at all, the operation of our schools and tutorial centers could be materially and adversely affected. In addition, if any of our landlords terminates the existing lease agreements, refuses to continue to lease the premises to our schools and tutorial centers when such lease agreements expire, or increase rent to the level not acceptable to us, we will be forced to relocate our schools and tutorial centers to other locations. We may not be able to find suitable premises for such relocation without incurring significant time and costs, or at all. If this occurs, our business, results of operations and financial condition could be materially and adversely affected, and our students, teachers and staff may also be negatively affected by such relocation.

In addition, as of the Latest Practicable Date, we have not registered certain of our lease agreements with the relevant government authorities. Under the relevant PRC laws and regulations, we may be required to register and file with the relevant government authority executed leases. According to our PRC Legal Advisor, Jingtian & Gongcheng, while the lack of registration will not affect the validity and enforceability of the lease agreements, a fine ranging from RMB1,000 to RMB10,000 may be imposed on the parties for each non-registered lease. We may incur additional expenses if any fines were imposed upon us, which may adversely affect our business and results of operations.

Capacity constraints of our school facilities could limit our ability to grow and we are subject to regulatory guidance relating to the ratios between school site area/building area and the number of enrolled students.

The educational facilities of our schools and tutorial centers are limited in space and size. We may not be able to admit all qualified students who would like to enroll in our schools or tutorial centers due to the capacity constraints of our current school facilities. Furthermore, without additional facilities such as classrooms and dormitories, we may not be able to expand our capacity at our current campuses unless we relocate to other facilities in the local area with more space. If we fail to expand our capacity as quickly as the demand for our services grows, by opening additional schools and tutorial centers or otherwise, we could lose potential students to our competitors, and our results of operations and business prospects could be materially and adversely affected.

During the Track Record Period and up to the Latest Practicable Date, our Shijiazhuang Institute of Technology (not including the west campus of Sifang College) and Saintach Kindergartens have been subject to regulatory guidance in relation to the ratio between our school’s site/building area and the number of students enrolled. According to the Basic Conditions for Operating Higher Education Institutions (Trial) (普通高等學校基本辦學條件指標(試行)) promulgated by the MOE on February 6,

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2004, for a technology school providing higher vocational education, the ratio between its teaching and administrative building area and its number of students should not be lower than nine sq.m. per student. Under the above regulation, for a technology school providing higher vocational education, the ratio between its school site area and its number of students should not be lower than 59 sq.m. per student, and such ratio belongs to monitoring index, which is a supplement to the basic index and primarily reflects improvements to the operation conditions of such institution. Such index provides significant guidance on improving the teaching quality and the information technology of such educational institutions. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, the relevant legislation does not state any legal consequences for a breach of the monitoring index.

As of December 31, 2015, 2016 and 2017, the ratio between the teaching and administrative building area and students enrolled by Shijiazhuang Institute of Technology (not including the west campus of Sifang College) was approximately 14.0 sq.m./student, 14.2 sq.m./student and 11.7 sq.m./student, which had complied with the aforesaid requirements. As of December 31, 2015, 2016 and 2017, the ratio between the school site area and students enrolled by Shijiazhuang Institute of Technology (not including the west campus of Sifang College) was approximately 37.0 sq.m./student, 37.5 sq.m./student and 30.9 sq.m./student, lower than the aforesaid monitoring index by 22.0 sq.m./student, 21.5 sq.m./student and 28.1 sq.m./student, respectively. Please see “Business – Properties – Regulatory Guidance Relating to the Ratio between School Site Area/Building Area and Number of Enrolled Students” for details. On March 28, 2018, with the assistance of our PRC Legal Advisor, we had an interview with an official at the Education Department of Hebei Province, being the competent and responsible authorities for supervising Shijiazhuang Institute of Technology. The official confirmed that failure to comply with the monitoring index relating to the ratio between the school site area and number of students, being not lower than 59 sq.m., will not subject Shijiazhuang Institute of Technology to any fines or penalties and its student enrollment will not be adversely affected. Our PRC Legal Advisor have advised us that the official we interviewed is familiar with the regulations governing the site area and its number of enrolled students of such institution and the implementation requirements of such regulations. Based on the foregoing, our PRC Legal Advisor is of the view that this official has the authority to comment on whether Shijiazhuang Institute of Technology is in compliance with the relevant regulations and the relevant legal consequences for any non-compliance. Although we obtained confirmations from such official, we cannot assure you that the regulations relating to the ratio between school site area/building area and the number of students enrolled will not change in the future or that the relevant education authorities will not impose any fines or penalties on us for not reaching the levels set out in the monitoring index. If the regulations changed, or the relevant education authorities had different interpretations which resulted in the ratio between school site area and number of students becoming a compulsory requirement, in order to comply with such requirement, we would need to rent or acquire more land. We estimate that we would need additional land with a gross site area of approximately 258,636 sq.m., based on the shortfall as of December 31, 2017 should we be compulsorily required to satisfy such monitoring index. In such case, we plan to lease additional land at an annual rental cost of RMB4 million to RMB6 million to satisfy such requirement or, if necessary, seek to acquire additional land at a total consideration acceptable to us from RMB40 million to RMB60 million. Such costs, if needed, could adversely affect our business, financial condition, future prospects and results of operations.

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

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. During the Track Record Period, we (i) did not make any contributions to the social insurance plans and

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housing provident fund for certain of our PRC employees, and (ii) did not make full contributions to the social insurance plans and housing provident fund for certain of our employees because we adopted a lower local standard as the payment base of social security. As of the Latest Practicable Date, we have not received any notice from the local authorities or any claim from our current and former employees regarding our non-compliance in this regard. We estimate that the aggregate amount of social insurance payments and housing provident fund contributions that we did not pay during the years ended December 31, 2015, 2016 and 2017 was approximately RMB15.4 million, RMB14.1 million and RMB10.4 million, respectively. Please see “Business – Legal Proceedings and Compliance” in this prospectus for further details. We have started to make full social insurance payments and housing provident fund contributions since August 2017. We cannot assure you that the relevant local government authorities will not require us to pay the outstanding amount within a specified time limit or impose late fees or fines on us, which may materially and adversely affect our financial condition and results of operations.

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

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

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

We cannot assure you that materials and other educational content used in our schools and tutorial centers do not or will not infringe intellectual property rights of third parties. As of the Latest Practicable Date, we have not received notices of any material claims or complaints against us for intellectual property infringement that have not been amicably resolved. However, there can be no guarantee that in the future third parties will not raise such claims.

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

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

According to the PRC Security Law and the PRC Property Law, mortgages, pledges or other encumbrances should not be created on properties which are used for public welfare facilities, including educational, medical and healthcare, and other public welfare facilities. The buildings that certain of our schools own and occupy may be considered “public welfare facilities” according to the Law for Promoting Private Education, which provides that private education is considered in the nature of “public welfare” in the PRC. Please see “Regulatory Overview – Laws and Regulations relating to Real Property” for details. As of the Latest Practicable Date, all of the properties we own or occupy were considered as public welfare facilities and none of such properties was pledged. Accordingly, these properties may not be pledged as collateral when our schools enter into loan agreements with banks. In such case, the schools' ability to obtain financing to fund their operations will be limited. Even if security interests are intended to be created based on such properties under any loan agreement to be entered into between any of our schools and potential lenders, such security interests may not be valid or enforceable under PRC laws and regulations. In addition, it is possible that a government authority, including any PRC court or administrative authority, may consider the security interests created on such facilities to be in violation of PRC laws if we and the lenders have any dispute with regards to the relevant loans under the applicable loan agreements or if the validity of the pledges are otherwise challenged. In such case, it is likely that such security interests will not be enforceable and we may be requested by our lenders to provide other forms of guarantees or prepay the outstanding balance of the loans immediately, which may materially and adversely affect the business operations of the relevant schools and our financial condition.

Unauthorized disclosures or manipulation of student, teacher information and other sensitive personal data, whether through breach of our network security or otherwise, could expose us to liabilities or could adversely affect our reputation.

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

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

Our business could be materially and adversely affected by natural disasters, such as earthquakes, floods, landslides, outbreaks of health epidemics such as avian influenza and severe acute respiratory syndrome, or SARS, and Influenza A virus, such as H5N1 subtype and H5N2 subtype flu viruses, as well as terrorist attacks, other acts of violence or war or social instability in the region in which we operate or those generally affecting China. In particular, as our Shijiazhuang Institute of Technology is a boarding school and our kindergartens provide daily naps to students and our Shijiazhuang Institute of Technology provides on-campus accommodations to our administrative staff, the boarding environment makes our students, teachers and staff exceptionally vulnerable to epidemics or pandemics, which may make it more difficult for us to take preventive measures if an epidemic or pandemic were to occur. Also, our kindergarten students are particularly vulnerable to pandemics and diseases prevalent among groups of

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young children, such as hand-foot-and-mouth disease, norovirus and varicella. Any of the above may cause material disruptions to our operations, such as temporary closure of our schools, which in turn may materially and adversely affect our financial condition and results of operations. If any of these occur, our schools and facilities may suffer damage or be required to temporarily or permanently close and our business operations may be suspended or terminated. Our students, teachers and staff may also be negatively affected by such events. In addition, any of these could adversely affect the PRC economy and demographics of the affected region, which could cause significant declines in the number of our students applying to or enrolled in our schools. If this takes place, our business, financial condition and results of operations could be materially and adversely affected.

RISKS RELATING TO OUR STRUCTURED CONTRACTS

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

We entered into a series of arrangements pursuant to which our wholly-owned subsidiary, Sheng Dao Xiang Cheng, receives full economic benefits from our PRC Operating Entities. Please see “Structured Contracts” in this prospectus for details.

Foreign investment in the education industry in China is extensively regulated and subject to numerous restrictions. Under the Foreign Investment Catalog, preschool education and higher education are restricted industries for foreign investors, and foreign investors are only allowed to invest in preschool education and higher education in cooperative ways and the domestic party shall play a dominant role in the cooperation. Furthermore, under the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education 《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》, which was issued by the MOE on June 18, 2012, the foreign portion of the total investment in a Sino-foreign joint venture private school should be below 50%. According to relevant regulations and as confirmed by the Commission of Education in Hebei Province, the foreign investors invested in preschools, higher education, academic non-credential and secondary vocational education must be foreign educational institutions with relevant qualification and experience. Please see “Regulatory Overview” in this prospectus for details.

Accordingly, foreign investment in preschools, higher education, academic non-credential and secondary vocational education is not prohibited. However, our subsidiary, Sheng Dao Xiang Cheng, is ineligible to independently or jointly operate preschools, higher educational institutions, academic non-credential and secondary vocational education. Please see “Structured Contracts – Background of the Structured Contracts” in this prospectus for details. Accordingly, we have been and are expected to continue to be dependent on our Structured Contracts to operate our education business.

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

- revoking the business and operating licenses of our PRC subsidiary or PRC Operating Entities;
- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiary or PRC Operating Entities;
- imposing fines or other requirements with which we or our PRC subsidiary or PRC Operating Entities may not be able to comply;

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- requiring us to restructure our operations in such a way as to compel us to establish new entities, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply; or
- restricting the use of proceeds from our additional public offering or financing to finance our business and operations in China.

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

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

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

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

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

As a measure to secure the passing of the “actual control” test in order for the Structured Contracts to remain a domestic investment and compliant with the Draft Foreign Investment Law, Mr. Li and Ms. Luo, our Controlling Shareholders, have given an undertaking in favor of our Company that, among other things, they will continue to maintain their Chinese nationalities for as long as they holds a controlling interest in our Company. Please see “Structured Contracts – Development in the PRC Legislation on Foreign Investment – Potential Measures to Maintain Control Over and Receive Economic Benefits from our PRC Operating Entities” in this prospectus for details. Our compliance with the Draft Foreign Investment Law may depend on Mr. Li’s and Ms. Luo’s adherence to the terms of such undertaking. In the event that Mr. Li or Ms. Luo breaches the undertaking, the Stock Exchange has limited enforcement power against Mr. Li or Ms. Luo and the Structured Contracts may be deemed invalid and illegal. In the extreme case-scenario, we may be required to unwind the Structured Contracts and/or dispose of our PRC Operating Entities, which could have a material and adverse effect on our business, financial condition and result of operations. In addition, there may be uncertainties that the measures to be adopted by us to maintain control over and receive economic benefits from our PRC Operating Entities alone may not be effective in ensuring compliance with the Draft Foreign Investment Law (if and when it becomes effective). In the event that our Company no longer has a sustainable business after the aforementioned unwinding of the Structured Contracts or disposal or such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the trading of our Shares or even result in delisting of our Company. For details of the Draft Foreign Investment Law and the negative list and its potential impact on our Company, and our potential measures to maintain control over and receive economic benefits from our PRC Operating Entities, please see “Structured Contracts – Development in the PRC Legislation on Foreign Investment” in this prospectus.

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

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

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In addition, while (i) Mr. Li and Ms. Luo unconditionally and irrevocably pledged and granted security interests over all of his/her equity interest in Zerui Education, (ii) Mr. Li and Zerui Education unconditionally and irrevocably pledged and granted security interests over all of his/its equity interest in Hebei Saintach, and (iii) Zerui Education unconditionally and irrevocably pledged and granted security interests over all of its equity interest in Shijiazhuang Saintach, together with all related rights thereto to Sheng Dao Xiang Cheng as security for performance of the Structured Contracts and all such loss and expenses incurred to Sheng Dao Xiang Cheng as a result of any events of default on the part of the Registered Shareholders, Zerui Education or each of our PRC Operating Entities, there is no equity pledge arrangement between Sheng Dao Xiang Cheng and Zerui Education in respect of the school sponsor's interest in our PRC Operating Entities held by Zerui Education. As advised by our PRC Legal Advisor, any equity pledge arrangement by which Zerui Education pledged its school sponsor's interest in our PRC Operating Entities in favor of us would be unenforceable under PRC laws and regulations as such interest is not an equity interest.

While we have implemented various measures with the aim of further enhancing our control over our schools, there can be no assurance that such measures will provide as effective in safeguarding our interests in case of any breach of obligations under the Structured Contracts or any provisions of the Structured Contracts become invalid or incapable of performance. Please see “Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (6) Equity Pledge Agreements” of this prospectus for further details.

If the parties under such Structured Contracts refuse to carry out our directions in relation to the everyday business operations of our PRC Operating Entities, we will be unable to maintain effective control over the operations of our PRC Operating Entities. If we were to lose effective control over our PRC Operating Entities, certain negative consequences would result, including our being unable to consolidate the financial results of our PRC Operating Entities with our financial results. Given that revenue from our PRC Operating Entities constituted all of the total revenue in our consolidated financial statements for the years ended December 31, 2015, 2016 and 2017, our financial position would be materially and adversely impacted if we were to lose effective control over our PRC Operating Entities. In addition, losing effective control over our PRC Operating Entities may negatively impact our operational efficiency and brand image. Further, losing effective control over our PRC Operating Entities may impair our access to their cash flow from operations, which may reduce our liquidity.

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

Our control over our PRC Operating Entities is based upon the Structured Contracts with our PRC Operating Entities, the Registered Shareholders and the directors of our PRC Operating Entities as appointed by Mr. Li, Zerui Education, Hebei Saintach and Shijiazhuang Saintach in their respective capacity as school sponsors or shareholders of our PRC Operating Entities. The Registered Shareholders may potentially have conflicts of interest with us and breach their contracts or undertakings with us if it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us on the one hand and our PRC Operating Entities on the other, the Registered Shareholders will act completely in our interest or that the conflicts of interest will be resolved in our favor. In the event that such conflict of interest cannot be resolved in our favor, we would have to rely on legal proceedings which could result in disruption to our business and we are subject to any uncertainty as to the outcome of such legal proceedings. If we are unable to resolve such conflicts, including where the Registered Shareholders breached their contracts or undertakings with us and as a result or otherwise subject us to claims from third parties, our business, financial condition and operations could be materially and adversely affected.

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We may not be able to meet the Qualification Requirement, our exercise of the option to acquire the school sponsor's interest and/or equity interest in our PRC Operating Entities may be subject to certain limitations and we may incur substantial costs and expend significant resources to enforce the Structured Contracts if any of our PRC Operating Entities fails to perform its obligations thereunder.

Pursuant to the Foreign Investment Catalog and the Sino-Foreign Regulation and as confirmed by the Education Department of Hebei Province, the foreign investor in Sino-foreign joint venture schools offering preschool, higher education, academic non-credential and secondary vocational education must be a foreign educational institution with relevant qualification and experience (the "Qualification Requirement") and hold less than 50% of the capital in a Sino-foreign educational institute (the "Foreign Ownership Restriction") and the domestic party must play a dominant role (the "Foreign Control Restriction"). Based on our consultation with the Education Department of Hebei Province, the foreign investor should be an officially recognized educational institution which is entitled to issue diploma and generally has certain advantages over the PRC-invested educational institutions. As of the Latest Practicable Date, while we do not meet the Qualification Requirement as we have no experience in operating schools or universities outside of the PRC, we have taken concrete steps towards the compliance with the Qualification Requirement. Please see "Structured Contracts – Background of the Structured Contracts – Plan to Comply with the Qualification Requirements" in this prospectus for details.

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

Furthermore, we may incur substantial cost on our part to exercise the option to acquire the school sponsors' interests and/or equity interest in our PRC Operating Entities. In the event that Sheng Dao Xiang Cheng or its designated entity acquires the school sponsors' interests and/or equity interest in our PRC Operating Entities pursuant to the Structured Contracts and the relevant PRC authorities determine that the purchase price for acquiring the school sponsor's interest and/or equity interest of our PRC Operating Entities is below market value, Sheng Dao Xiang Cheng or its designated entity may be required to pay enterprise income tax with reference to the market value such that the amount of tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

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

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Exclusive Service Agreement we have with our PRC Operating Entities does not represent an arm's-length price and adjust any of those entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. In addition, PRC tax authorities may have reason to believe that our subsidiaries or PRC Operating Entities are dodging their tax obligations, and we may not be able to rectify such incident within the limited timeline required by PRC tax authorities. As a result, the PRC tax authorities may impose late payment

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fees and other penalties on us for under-paid taxes, which could materially and adversely affect our business, financial condition and results of operations.

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

The Structured Contracts provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission in Beijing, the PRC. The Structured Contracts contain provisions to the effect that the arbitral body may award remedies over the equity interests and/or assets of our PRC Operating Entities, award injunctive relief and/or order the winding up of our PRC Operating Entities. In addition, the Structured Contracts contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, we have been advised by our PRC Legal Advisor, Jingtian & Gongcheng, under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final winding-up order to preserve the assets of or any equity interest in our PRC Operating Entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Structured Contracts. PRC laws allow an arbitral body to award the transfer of assets of or equity interest in our PRC Operating Entities in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against our PRC Operating Entities as interim remedies to preserve the assets or equity interests in favor of any aggrieved party. Our PRC Legal Advisor is also of the view that, in case the Structured Contracts provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favor of an aggrieved party) may still not be recognized or enforced by PRC courts. As a result, in the event that our PRC Operating Entities or any of the Registered Shareholders breaches any of the Structured Contracts, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Operating Entities and conduct our education business could be materially and adversely affected. Please see “Structured Contracts – Dispute Resolution” in this prospectus for further details of the enforceability of the dispute resolution provisions in the Structured Contracts as opined by our PRC Legal Advisor.

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

Our Company is a holding company and our ability to pay dividends and other cash distributions to our Shareholders, service any debt we may incur and meet our other cash requirements depends significantly on our ability to receive dividends and other distributions from Sheng Dao Xiang Cheng, our PRC subsidiary. Sheng Dao Xiang Cheng’s income in turn depends on the service fees paid by our PRC Operating Entities. The amount of dividends paid to our Company by Sheng Dao Xiang Cheng depends solely on the service fees paid to Sheng Dao Xiang Cheng from our consolidated affiliated entities. However, there are restrictions under PRC laws for the payment of dividends to us by Sheng Dao Xiang Cheng. For example, under PRC laws and regulations, Sheng Dao Xiang Cheng shall make up its losses of previous years when conducting outward remittance. Sheng Dao Xiang Cheng is required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year to fund a statutory reserve until the accumulated amount of such reserve has exceeded 50% of its registered capital. In addition, at the end of each fiscal year, each of our schools that is a 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 are required to allocate no

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less than 25% of their annual net income to the development fund of the schools. Moreover, the service fees paid to Sheng Dao Xiang Cheng are subject to PRC corporate income tax and value-added tax before Sheng Dao Xiang Cheng makes any distribution to us. Consequently, Sheng Dao Xiang Cheng is restricted in its ability to transfer a portion of its net assets to us or any of our other subsidiaries in the form of dividends, loans or advances. The foregoing restrictions on the ability of Sheng Dao Xiang Cheng to pay dividends to us and the limitations on the ability of consolidated affiliated entities to pay service fees to Sheng Dao Xiang Cheng could materially and adversely limit our ability to pay dividends to holders of our Shares.

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

We currently conduct our operations in China through Structured Contracts. As part of these arrangements, substantially all of our education-related assets, permits and licenses that are important to the operation of our business are held by our PRC Operating Entities. If any of these PRC Operating Entities is wound up, and all or part of their assets become subject to liens or rights of third-party creditors or are distributed to other persons of higher priority than the school sponsor of the schools or the shareholders (of the companies) in accordance with the applicable PRC laws and regulations, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our PRC Operating Entities undergoes a voluntary or involuntary liquidation proceeding as provided by the applicable PRC laws and regulations, including the Law for Promoting Private Education of the PRC, our PRC Operating Entities may be required to distribute their assets to other persons of higher priority than the school sponsor or the shareholders (of the companies), or its equity owner or unrelated third-party creditors may claim rights relating to some or all of these assets, which would hinder our ability to operate our business and could materially and adversely affect our business, our ability to generate revenue and the market price of our Shares. While certain alternative measures have been provided in the Structured Contracts, we may not be able to exercise our rights in a timely manner and our business, financial condition and operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

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

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

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

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

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

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

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

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

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

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

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

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

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. The majority of our income is received in Renminbi and shortages in the availability of foreign currencies may restrict our ability to pay dividends or other payments, or otherwise satisfy our foreign currency denominated obligations, if any. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. Approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, impose restrictions on access to foreign currencies for current account transactions and if this occurs in the future, we may not be able to pay dividends in foreign currencies to our Shareholders.

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

The value of the Renminbi has been under pressure of appreciation in recent years. Due to international pressure on the PRC to allow more flexible exchange rates for the Renminbi, the economic situation and financial market developments in the PRC and abroad and the balance of payments situation in the PRC, the PRC government has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility.

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

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

The economy of China has been experiencing significant growth, leading to inflation and increased labor costs. According to the National Bureau of Statistics of China, the year-over-year percent change in the consumer price index in China was 1.8% in December 2017. China's overall economy and the average wage in the PRC are expected to continue to grow. Future increases in China's inflation and material increases in the cost of labor may materially and adversely affect our profitability and results of operations unless we are able to pass on these costs to our students by increasing tuition.

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

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

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

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

Most of our assets are situated in the PRC and most of our Directors and senior managements reside in, and most of their respective assets are located in the PRC. As a result, it may be difficult to effect service of process outside the PRC upon most of our Directors and senior managements. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and many other countries or jurisdictions. Consequently, it may be difficult for you to enforce any judgments rendered by non-PRC courts against us or our Directors or senior managements in the PRC.

On July 14, 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned 《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》 (the "Arrangement"), which was revised on July 3, 2008. Pursuant to the Arrangement, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and

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enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

If we are classified as a PRC “resident enterprise”, we could be subject to PRC income tax at the rate of 25% on our worldwide income, and holders of our Shares may be subject to a PRC withholding tax upon the dividends payable by us and upon gain from the sale of our Shares.

We are a holding company incorporated under the laws of Cayman Islands and indirectly hold interests in our PRC operating subsidiary. Pursuant to the EIT Law and the Implementation Rules of the EIT Law 《中華人民共和國企業所得稅法實施條例》(the “Implementation Rules”), which became effective on January 1, 2008, dividends payable by a foreign-invested enterprise to its foreign corporate investors who are not deemed as PRC resident enterprises are subject to a 10% withholding tax, unless otherwise reduced or exempted by relevant tax treaties or similar arrangements.

The EIT Law provides that if an enterprise incorporated outside the PRC has “de facto management bodies” in the PRC, such enterprise may be deemed as a “PRC resident enterprise” for tax purposes and will be subject to an enterprise income tax at the rate of 25% on its global incomes. “De facto management body” is defined as the body that substantially carry out comprehensive management and control of the business operation, personnel, accounts and assets of enterprises. In April 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies 《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》to clarify certain criteria for the determination of the “de facto management body” for foreign enterprises controlled by PRC enterprises. Aforementioned criteria include: (i) the enterprise’s day-to-day operational management is primarily exercised in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by institutions or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in the PRC; and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC. There have been no official implementation rules regarding the determination of the “de facto management body” for foreign enterprise which is not controlled by PRC enterprises. Therefore, it remains unclear how the tax authorities will deal with a case like ours. We cannot assure you that we will not be considered as a PRC resident enterprise for PRC enterprise income tax purposes and may be subject to the 25% enterprise income tax on our global income. Although the EIT Law provides that dividends paid between qualified PRC resident enterprises are exempted from enterprise income tax, it remains unclear as to the detailed qualification requirements for this exemption and whether dividends paid by our PRC incorporated subsidiaries to us will meet such qualification requirements even if we are considered a PRC resident enterprise for PRC tax purposes.

Dividends payable by us to our foreign investors and gains on sale of our Shares may be subject to withholding tax under the PRC tax laws.

Under the EIT Law and its implementation rules, we might be deemed as a PRC resident enterprise by the PRC tax authorities for tax purposes. As a result, dividends payable by us and gains obtained from sales of our Shares will be subject to PRC withholding tax since such income may be regarded as the

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PRC-sourced income. Under the circumstances, aforementioned dividends and gains obtained by our foreign corporate Shareholders, who are not deemed as PRC resident enterprises, may be subject to a 10% withholding income tax under the EIT Law, unless any such foreign corporate Shareholder is qualified for a preferential tax rate under relevant tax treaties. If the PRC tax authorities deem us to be a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties need to apply to the PRC tax authorities to be recognized as eligible for such benefits in accordance with the Announcement of the SAT on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers 《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》 (the “Circular 60”), which was issued on August 27, 2015. According to the Circular 60, the preferential tax rate does not automatically apply. With respect to dividends, the “beneficial owner” tests under the Circular on Interpretation and Determination of Beneficial Owner under Tax Treaties 《關於如何理解和認定稅收協定中“受益所有人”的通知》 (the “Circular 601”) will also apply. If determined to be ineligible for the abovementioned tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would subject to higher PRC tax rates. In such cases, the value of such Foreign Shareholders’ investment in our Shares sold in the Global Offering may be materially and adversely affected.

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

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools providing academic qualification education are eligible to enjoy income tax exemption treatment if the school sponsors of such schools do not require reasonable returns. Preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities. To date, no separate regulations or policies have been promulgated in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmation letters we obtained from such authorities, Shijiazhuang Institute of Technology and certain of our Saintach Kindergartens have historically enjoyed preferential tax treatment since their establishment. If Shijiazhuang Institute of Technology had not enjoyed preferential tax treatment during the three years ended December 31, 2015, 2016 and 2017, our net profit would have been decreased by approximately RMB7.2 million, RMB9.5 million and RMB11.2 million, respectively. If certain of our Saintach Kindergartens had not enjoyed preferential tax treatment during the three years ended December 31, 2015, 2016 and 2017, our net profit would have been decreased by approximately RMB0.3 million, RMB0.6 million and RMB0.4 million, respectively. Please see “Financial Information – Key Components of our Results of Operation – Taxation – PRC Corporate Income Tax” and note 10 to the Accountants’ Report in Appendix I to this prospectus for details of historical preferential tax treatment for Shijiazhuang Institute of Technology and each of our Saintach Kindergartens. In addition, there is no guarantee that the preferential tax treatment that currently applies to our schools will not be affected by the taxation policies applicable to for-profit private schools after the Amendment Decision once such policies are introduced. Please see “– New legislation or changes in the PRC regulatory requirements regarding private education may affect our business operations and prospects” in this section for further details. There is a possibility that the PRC government may promulgate relevant tax regulations that will eliminate such preferential tax treatment, or the local tax bureaus may change their policy, and in each such case, we will be subject to PRC income tax going forward.

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

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

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

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

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

SAFE has promulgated the Circular of SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles 《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》 (the “Circular 37”) on July 4, 2014 to replace the Circular of SAFE on Relevant Issues Concerning Foreign Exchange Administration for Financing and Return Investments by Domestic Residents through Special-Purpose Overseas Companies 《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (the “Circular 75”). According to the Circular 37, PRC residents (including PRC citizens and PRC enterprises) shall apply to SAFE or its local bureau to register foreign exchange for overseas investments before contributing to Special Purpose Vehicles (the “SPVs”) with legitimate domestic and overseas assets or rights and interests. In the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC citizen shareholder, name and operating duration; or in the event of any alternation in key information, such as increases or decreases in the share capital held by PRC citizens, or equity transfers, swaps, consolidations, or splits, the registered PRC residents shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus.

To the best of our knowledge, as of the Latest Practicable Date, our Controlling Shareholders, Mr. Li and Ms. Luo, were required to make the foreign exchange registration under the Circular 37 and completed such registration with SAFE or its local counterpart. However, we may not at all times be fully aware or informed of the identities of all our beneficiaries who are PRC nationals, and may not always be able to compel our beneficiaries to comply with the requirements of the Circular 37. As a result, we cannot assure you that all of our Shareholders or beneficiaries who are PRC nationals will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by the Circular 37 or other related regulations. Under the relevant rules, failure to comply with the registration procedures set forth in the Circular 37 may result in restrictions on the foreign exchange activities of the relevant PRC enterprise and may also subject the relevant PRC resident to penalties under the PRC foreign exchange administration regulations.

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RISKS RELATING TO THE GLOBAL OFFERING

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

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

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

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

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

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

RISK FACTORS

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

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares. There will be 1,200,000,000 Shares outstanding immediately following the Global Offering, assuming no exercise of the Over-allotment Option. Our Controlling Shareholders agreed that any Shares held by them will be subject to a lock-up after the Listing. Please see “Underwriting – Underwriting Arrangements and Expenses” in this prospectus for further details. However, the Underwriters may release these securities from these restrictions and such Shares will be freely tradable after the expiry of the lock-up period. Shares which are not subject to a lock-up arrangement represent approximately 30% of the total issued share capital immediately following the Global Offering (assuming no exercise of the Over-allotment Option) and will be freely tradable immediately following the Global Offering.

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

Immediately after the completion of the Global Offering and the Capitalization Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), our Controlling Shareholders will own approximately 70% of our Shares. As such, our Controlling Shareholders will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. These actions may be taken even if they are opposed by our other Shareholders, including those who purchased Shares in the Global Offering. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders.

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

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

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

During the Track Record Period, a dividend of RMB70.0 million was declared by Shijiazhuang Institute of Technology in the year ended December 31, 2016 which had been settled by offsetting with its balances due from Lionful Education as of December 31, 2016. Any future dividend declaration and distribution by our Company will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and the PRC laws, including (where required) the approvals from our shareholders and our Directors. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiary. As a result of the above, we

RISK FACTORS

cannot assure you that we will make any dividend payments on our Shares in the future with reference to our historical dividends. For further details, please see “Financial Information – Dividends” in this prospectus.

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

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering in a number of ways, including the expansion of our school network and the repayment of loans. Please see “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for details. However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this Global Offering.

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

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

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

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

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

RISK FACTORS

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

Our corporate affairs are governed by, among other things, our Memorandum and Articles and the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

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

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

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

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since our principal business operations are primarily located in the PRC and will continue to be based in the PRC, our executive Directors and senior management members are and will continue to be based in the PRC. At present, none of our executive Directors is ordinarily resident in Hong Kong. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements set out in Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. Liu Zhanjie (劉占杰先生), our executive Director and the chief executive officer of our Company, and Ms. Liu Qingli (劉青莉女士), our executive vice president and one of our joint company secretaries. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by home, office, mobile and other telephone numbers, email address and correspondence address (if the authorised representative is not based at the registered office), facsimile numbers if available, and any other contact details prescribed by the Stock Exchange from time to time. Each of the authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange. All of them have confirmed that they possess valid travel documents to Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required;
- (b) our authorised representatives have means of contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication between the Stock Exchange, the authorised representatives and our Directors, our Company has implemented a policy whereby (i) each Director will provide his or her office phone number, mobile phone number, residential phone number, office facsimile number and email address to the authorised representatives; (ii) each Director will provide valid phone numbers or means of communication to the authorised representatives when he or she travels; and (iii) all Directors have provided their mobile phone numbers, office phone numbers, email addresses and office fax numbers to the Stock Exchange;
- (c) our Company has, in accordance with Rule 3A.19 of the Listing Rules, also appointed Messis Capital Limited as its compliance advisor, who will act as an additional channel of communication with the Stock Exchange. The compliance advisor will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong for a period commencing on the Listing Date at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the Listing Date. The compliance advisor will have access at all times to the authorised representatives, the Directors and the other senior management members of the Company to ensure that it is in a position to provide prompt response to the enquires or requirements raised by the Stock Exchange in respect of the Company;
- (d) meetings between the Stock Exchange and our Directors could be arranged through our authorised representatives or our Company's compliance advisor, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in our Company's authorised representatives and compliance advisor; and
- (e) each Director who is not an ordinarily resident in Hong Kong has confirmed that he or she possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange in Hong Kong within a reasonable period of time.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

JOINT COMPANY SECRETARIES

In accordance with Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary, by virtue of his/her academic or professional qualifications or relevant experience, who is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The academic or professional qualifications that are acceptable to the Stock Exchange are as follows:

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

We have appointed Ms. Liu Qingli (劉青莉女士, “Ms. Liu”) as one of our joint company secretaries. Ms. Liu joined our Group in December 2015 and has served as our executive vice president responsible for the human resources, legal compliance and daily management of our Group since then. She has a thorough understanding of the business management, daily operations, internal administration and corporate culture of our Company. However, Ms. Liu does not satisfy the appointment qualifications strictly set out under Rule 3.28 of the Listing Rules. Therefore, we have appointed Ms. Wong Sau Ping (黃秀萍女士, “Ms. Wong”), who satisfies the qualifications under Rule 3.28 of the Listing Rules, to be the other joint company secretary. Ms. Wong will provide assistance to Ms. Liu for an initial period of three years from the Listing Date to fully satisfy the requirements set out under Rules 3.28 and 8.17 of the Listing Rules. For further details of the biography of Ms. Wong, please see “Directors and Senior Management – Joint Company Secretaries” in this prospectus.

Ms. Wong will work closely with Ms. Liu in the discharge of their duties and responsibilities as our joint company secretaries and will provide assistance to Ms. Liu to acquire the relevant experience set out under Rule 3.28 of the Listing Rules. In addition, Ms. Liu will participate relevant trainings to improve and promote her knowledge and understanding of the Listing Rules as well as other applicable laws and regulations.

We have submitted our application to the Stock Exchange, and the Stock Exchange has granted a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules, for an initial period of three years from the Listing Date, subject to the condition that our Company engages Ms. Wong, who meets the requirements under Rules 3.28 and 8.17, as a joint company secretary and to assist Ms. Liu in the discharging her functions as a company secretary and in gaining the relevant experience as required under Rule 3.28 of the Listing Rules. The waiver will be revoked immediately if Ms. Wong, during the three year period, ceases to provide assistance to Ms. Liu. Prior to the end of the three-year period, we will make a further evaluation of Ms. Liu’s qualifications and experience to determine whether the requirements set out under Rule 3.28 of the Listing Rules are satisfied. We and Ms. Liu would then endeavor to demonstrate to the Stock Exchange’s satisfaction that Ms. Liu, having had the benefit of Ms. Wong’s assistance for three years, will have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules, so that a further waiver will not be necessary.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

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

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

INFORMATION ON THE GLOBAL OFFERING

The Global Offering is made solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorized in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters, any of their respective directors, officers, representatives or affiliates of any of them or any other person or party involved in the Global Offering.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement, and the International Placing is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement. The Global Offering is subject to our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

The Global Offering is managed by the Sole Global Coordinator. If, for any reasons, the Offer Price is not agreed upon between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or around May 25, 2018, the Global Offering will not proceed and will lapse. For further details, please see "Underwriting" in this prospectus.

Further information about the Underwriters and the underwriting arrangements is set forth in "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus and the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

Each person acquiring the Offer Shares will be required to, or be deemed by his acquisition of Offer Shares, to confirm, that he is aware of the restrictions on offers and sale of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances contravene any such restrictions.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, Shares to be issued under the Capitalization Issue and Shares which may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme). Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealing in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on May 29, 2018. Shares will be traded in board lots of 3,000.

The stock code for the Shares is 1598.

Our Company will not issue any temporary documents of title.

REGISTER OF MEMBERS AND STAMP DUTY

All Offer Shares subscribed for and issued pursuant to applications made in the Global Offering will be registered on our Company's branch register of members to be maintained in Hong Kong by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company's principal register of members will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

Dealings in Offer Shares registered in the branch register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of and dealing in the Offer Shares. None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, representatives or affiliates or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposition of Offer Shares.

For potential investors who are non-PRC resident enterprises, please also see “Risk Factors – Risks Relating to Conducting Business in China” and “Regulatory Overview” in this prospectus for further details.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in “How to Apply for the Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Details of the structure and conditions of the Global Offering, including its conditions, are set out in “Structure and Conditions of the Global Offering” and “How to Apply for the Hong Kong Offer Shares – 4. Terms and Conditions of an Application” in this prospectus.

ROUNDING

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

OVER-ALLOTMENT OPTION AND STABILIZATION

For details of the arrangements relating to the Over-allotment Option and stabilization, please see “Structure and Conditions of the Global Offering – Over-allotment Option” and “Structure and Conditions of the Global Offering – Stabilization Action” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Investors should seek the advice of their stockbroker or other professional advice for details of these settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

- HK\$1.00: RMB0.8092, being the rate of People's Bank of China prevailing on May 4, 2018;
- RMB6.3521: US\$1.00, being the rate of People's Bank of China prevailing on May 4, 2018.

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

WEBSITE

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

OTHER

If there is any inconsistency between the English prospectus and the Chinese prospectus, the English prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Li Yunong (李雨濃)	No. 401, Unit 1, Building 11 Zone 1, No. 75 Donggang Road Yuhua District Shijiazhuang City Hebei Province the PRC	Chinese
Mr. Liu Zhanjie (劉占杰)	Room 103, Unit 2, Building 7 No. 16 Shifeng Road Qiaoxi District Shijiazhuang City Hebei Province the PRC	Chinese
Ms. Liu Hongwei (劉宏煒)	Room 20-1-602, Fangqi Yichang Dormitory No. 17 Xicaiyuan Road Qiaoxi District Shijiazhuang City Hebei Province the PRC	Chinese
Mr. Ren Caiyin (任彩銀)	Room 1-1-201, Provincial Environmental Protection Bureau Dormitory No. 448 Yuhua West Road Shijiazhuang City Hebei Province the PRC	Chinese
Ms. Yang Li (楊莉)	No. 602, Unit 2, Building 3 No. 78 Fangbei Road Chang'an District Shijiazhuang City Hebei Province the PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Guo Litian (郭立田)	Room 103, Unit 4, Building No. 10 No. 203 Xinshinan Road Qiaoxi District Shijiazhuang City Hebei Province the PRC	Chinese
Mr. Ma Guoqing (馬國慶)	Room 702, Unit 1, Building No. 3 No. 13 Changfeng Road Qiaoxi District Shijiazhuang City Hebei Province the PRC	Chinese
Mr. Yao Zhijun (姚志軍)	Room 501, Unit 3, Building No. 3 No. 249 Taihua Street Xinhua District Shijiazhuang City Hebei Province the PRC	Chinese

See also “Directors and Senior Management” in this prospectus for further details of our Directors.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

China Securities (International)
Corporate Finance Company Limited
18/F, Two Exchange Square
Central
Hong Kong

Sole Global Coordinator

China Securities (International)
Corporate Finance Company Limited
18/F, Two Exchange Square
Central
Hong Kong

Joint Bookrunners

China Securities (International)
Corporate Finance Company Limited
18/F, Two Exchange Square
Central
Hong Kong

Head & Shoulders Securities Limited
Room 2511, 25/F
Cosco Tower
183 Queen's Road Central
Hong Kong

Morton Securities Limited
1804-5, 18/F
Allied Kajima Building
138 Gloucester Road
Wan Chai
Hong Kong

ABCI Capital Limited
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Lead Managers

China Securities (International)
Corporate Finance Company Limited
18/F, Two Exchange Square
Central
Hong Kong

Head & Shoulders Securities Limited
Room 2511, 25/F
Cosco Tower
183 Queen's Road Central
Hong Kong

Morton Securities Limited
1804-5, 18/F
Allied Kajima Building
138 Gloucester Road
Wan Chai
Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

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

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

Founder Securities (Hong Kong) Limited
Suites 1710-1719
Jardine House
1 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisors to our Company

As to Hong Kong law and United States law:

Luk & Partners
In Association with
Morgan, Lewis & Bockius
Suites 1902-09, 19/F
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

Jingtian & Gongcheng
34/F., Tower 3, China Central Place
77 Jianguo Road
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As to Hong Kong law and United States law:

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Advisory Limited
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Receiving bank

Bank of China (Hong Kong) Limited
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Compliance advisor

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Industry Consultant

Frost & Sullivan (Beijing), Inc.
Shanghai Branch Co.
1018, Tower B
500 Yunjin Road
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CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarter and principal place of business in the PRC	8th Floor, Zhongdian Information Building No. 356 Zhongshan West Road Qiaoxi District Shijiazhuang City Hebei Province the PRC
Principal place of business in Hong Kong	31/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
Company's website	www.21centuryedu.com <i>(information contained in this website does not form part of this prospectus)</i>
Company secretary	Liu Qingli (劉青莉) C11-2-601, Tianyuan Neighborhoods No. 426 Youyi North Street Xinhua District Shijiazhuang City Hebei Province the PRC Wong Sau Ping (黃秀萍) (ACIS, ACS) 31/F, Tower Two, Times Square 1 Matheson Street Causeway Bay Hong Kong
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CORPORATE INFORMATION

Audit committee

Yao Zhijun (姚志軍) (*Chairman*)
Guo Litian (郭立田)
Ma Guoqing (馬國慶)

Remuneration committee

Ma Guoqing (馬國慶) (*Chairman*)
Guo Litian (郭立田)
Liu Zhanjie (劉占杰)

Nomination committee

Li Yunong (李雨濃) (*Chairman*)
Ma Guoqing (馬國慶)
Yao Zhijun (姚志軍)

Principal Bankers

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Cayman Islands

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
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INDUSTRY OVERVIEW

This section contains certain information, statistics and data which are derived from official government publications and industry sources as well as the Frost & Sullivan Report. The information from official government publications and the Frost & Sullivan Report may not be consistent with information available from other sources within or outside the PRC and Hong Kong. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any adverse change in market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an adverse impact on the quality of information in this section. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering (excluding Frost & Sullivan in respect of the Frost & Sullivan Report and the information therein) and no representation is given as to its accuracy.

SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the PRC private education market, and specifically the private preschool education market in the PRC, the Integrated Area, Hebei Province and Shijiazhuang, the private higher education market in the PRC and the Integrated Area, and the after-school tutoring market in the PRC, Hebei Province and Shijiazhuang.

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information and industry insights on the industry trends of the private education market in the PRC, the Integrated Area, Hebei Province and Shijiazhuang as a whole. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved reviewing company reports, independent research reports and data from Frost & Sullivan's research database.

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China's economy and industry development 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 2018 to 2021; (iii) market drivers, such as the increasing demand for preschool education, the support from the PRC central and local governments and the growing awareness of the importance of preschool education, are likely to continue to affect China's preschool education market; and (iv) market drivers, such as the increasing demand for higher educational and academic qualifications, the market's growing demand for individuals with technical skills, the diversification and improved quality of private higher education as well as the government support, are likely to continue to affect China's private higher education market.

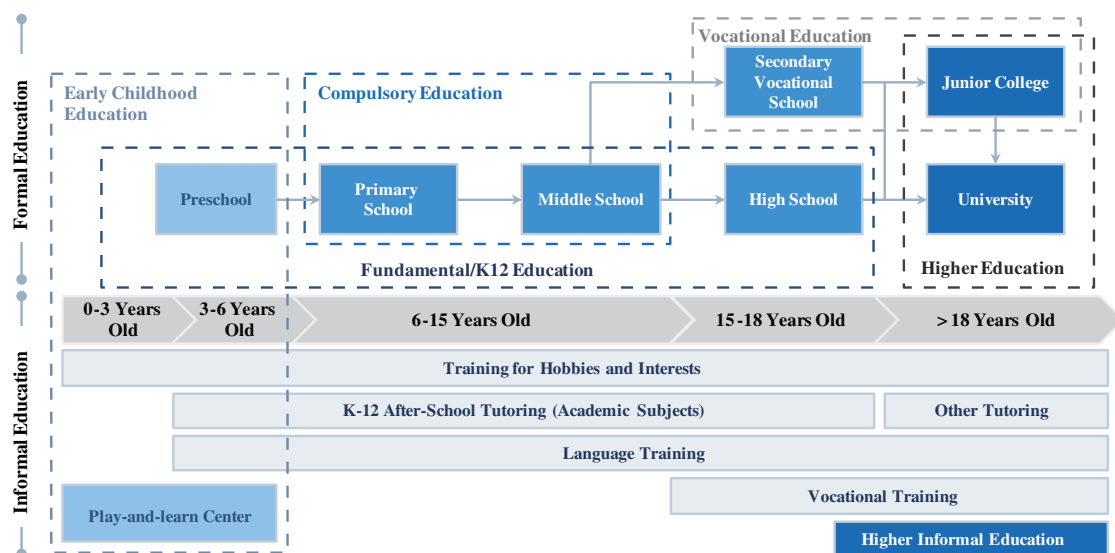
Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. It has over 40 offices worldwide with over 2,000 industry consultants, market research analysts and economists. We are contracted to pay a fee of RMB870,000 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 "Summary", "Risk Factors", "Business", "Financial Information" and elsewhere in this prospectus to provide our potential investors with a more comprehensive presentation of the industries in which we operate.

THE EDUCATION INDUSTRY IN CHINA

China's regular educational system includes formal and informal education. Primarily, formal education is comprised of fundamental education, which includes preschool, primary school, middle school and high school, and higher education, which is comprised of junior college and university. Primary and middle school phases are typically compulsory education in China. Formal vocational education, including both secondary vocational school and junior college level vocational school, also form part of the formal educational system. The following chart illustrates the composition of the PRC educational system.

INDUSTRY OVERVIEW

Illustration of China's Educational System



Source: Frost & Sullivan

According to the Frost & Sullivan Report, the overall private education industry in China is highly competitive and fragmented and the market players' business performance is usually sensitive to demographic changes in the areas in which they operate.

PLAN FOR COORDINATED DEVELOPMENT OF THE INTEGRATED AREA

The Integrated Area, consisting of Beijing, Tianjin and Hebei Province, had a nominal GDP of RMB8.3 trillion in 2017, making it the largest urbanized region in Northern China, according to the Frost & Sullivan Report. The Integrated Area had a total population of 114.1 million in 2017, and is expected to reach 121.0 million by 2021, according to the Frost & Sullivan Report.

In April, 2015, the Political Bureau of the CPC Central Committee issued the Outline of the Plan for Coordinated Development for the Beijing-Tianjin-Hebei Region (京津冀協同發展規劃綱要) (the "Outline") as part of China's development strategy. The outline aims at optimizing the integrated development of the region by transferring the nonessential functions of Beijing, the capital of China, to the neighboring city and province, adjusting the economic structure and rationalizing space utilization. With Beijing being the main focus of the strategy, Hebei and Tianjin will also be able to share the economic and labor strength of Beijing. In particular, according to the Outline, Hebei will become an important national base for trading and logistics, a pilot zone for industrial transformation and upgrading, an exemplary area for modern urbanization and urban-rural integration, and an ecological buffer zone. It is expected that Hebei Province would develop at a fast pace and the income of Hebei residents are likely to grow in line with the fast developing economy, according to the Frost & Sullivan Report.

In addition, according to the Frost & Sullivan Report, during the industrial transformation and upgrade in Hebei Province, there will be an increasing demand for a large amount of technically skilled talents, which will require higher educational institutions in Hebei to be well prepared for such market demand. Many universities and educational institutions in Beijing and Tianjin have reinforced their cooperation with higher educational institutions in Hebei Province. According to the Frost & Sullivan Report, the educational institutions in Hebei Province will enter a new development phase in the near future, embracing more development opportunities.

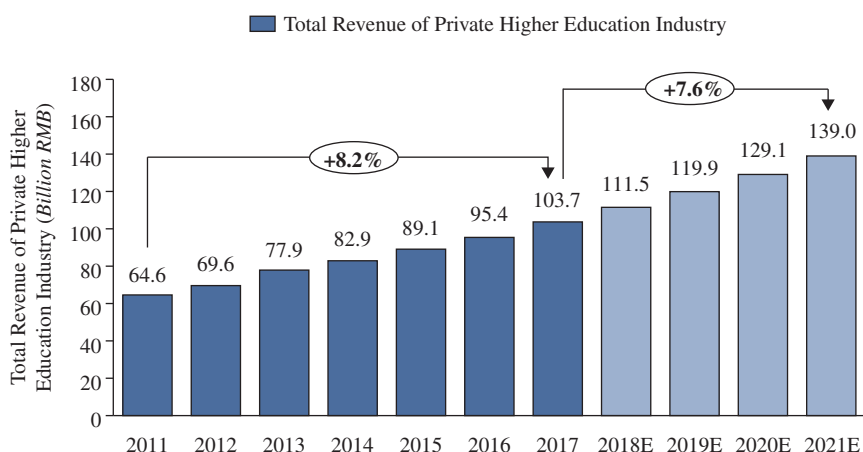
THE PRIVATE HIGHER EDUCATION INDUSTRY IN CHINA

Private higher education industry in China has experienced rapid growth in recent years, according to the Frost & Sullivan Report. Private higher educational institutions in China can be divided into three categories: private regular universities (民辦普通本科), independent colleges (獨立學院) and private junior colleges (民辦普通專科).

INDUSTRY OVERVIEW

According to the Frost & Sullivan Report, total revenue of the private higher education industry in China has been increasing steadily from RMB64.6 billion in 2011 to RMB103.7 billion in 2017, representing a CAGR of 8.2%, and is expected to grow to RMB139.0 billion by 2021, representing a CAGR of 7.6% from 2017. The following chart illustrates the total revenue generated by the private higher education industry in China from 2011 to 2017, and the forecast of revenue from 2018 to 2021.

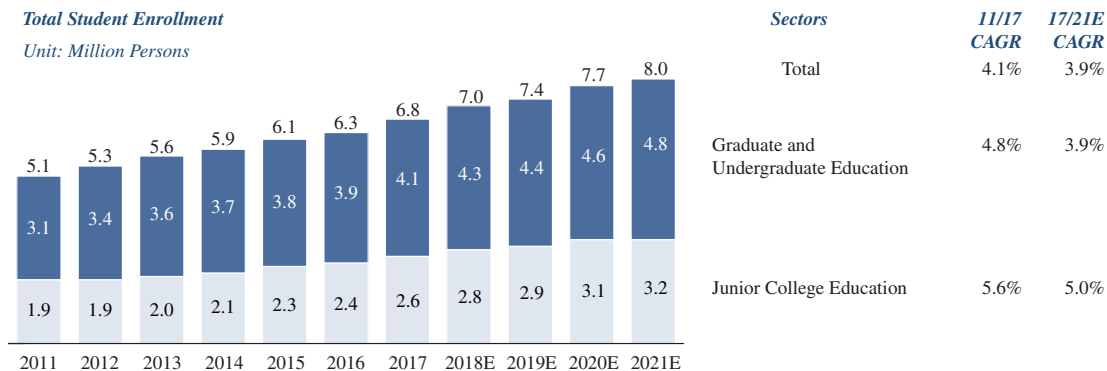
Total Revenue of Private Higher Education Industry (China), 2011-2021E



Source: Frost & Sullivan

According to the Frost & Sullivan Report, from 2011 to 2017, the total number of students enrolled in private higher education in China increased from 5.1 million to 6.8 million, representing a CAGR of 4.1%. By 2021, this number is expected to increase to 8.0 million, representing a CAGR of 3.9% from 2016, according to the Frost & Sullivan Report. The following chart illustrates the total student enrollment in the private higher education industry in China from 2011 to 2017, as well as a forecast of student enrollment from 2018 to 2021.

Total Student Enrollment in Private Higher Education Industry (China), 2011-2021E



Source: Frost & Sullivan

In recent years, the rate of growth in enrollment in private institutions of higher education has significantly exceeded that in public institutions. As a result, the penetration rate of private higher education as a whole in China has increased from 20.4% in 2011 to 22.8% in 2017. According to the Frost & Sullivan Report, the trend is likely to continue as the penetration rate is expected to reach 24.3% by 2021.

INDUSTRY OVERVIEW

Developmental Trends of the Private Higher Education in China

The development of the private higher education in China is primarily driven by the following factors:

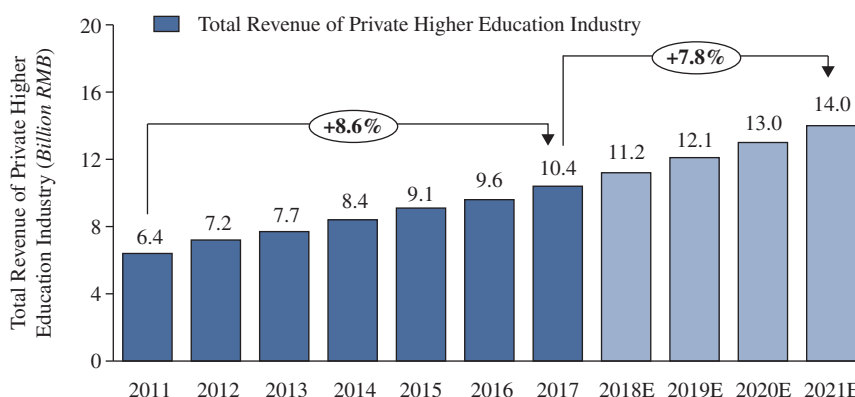
- Rapidly growing market demand for workforce with practical and readily-applicable technical skills in a number of industries;
- Increasing diversification in private higher education as reflected by the fact that a number of private higher educational institutions that focus on professional training are expanding their profiles and increasing their level of specialization; and
- An increasing number of school and college mergers and acquisitions as schools and colleges seek to adapt to the rapidly changing political and economic environment.

THE PRIVATE HIGHER EDUCATION INDUSTRY IN THE INTEGRATED AREA AND HEBEI PROVINCE

Market Size and Trends of the Private Higher Education Industry in the Integrated Area

According to the Frost & Sullivan Report, total revenue of the private higher education industry in the Integrated Area increased from RMB6.4 billion in 2011 to RMB10.4 billion in 2017, representing a CAGR of 8.6%. Total revenue is expected to continue to grow to RMB14.0 billion in 2021, representing a CAGR of 7.8% from 2017, according to the Frost & Sullivan Report. According to the Frost & Sullivan Report, the growth of revenue in the regional market is driven both by the growth of student enrollment and an increase in the level of tuition fees and other expenditure on a per student basis. With continued growth in disposable income, Chinese households have put increasing attention on education, resulting in the rapidly growing demand for education resources. However, education resources, especially premium education resources, remain limited in the market. Thus, the imbalance of supply and demand is expected to result in increasing tuition fees in the near future. In addition, the latest amendment of “Non-governmental Education Promotion Law” (民办教育促进法) and other related favorable policies have given the operators of private schools more autonomy in setting and adjusting tuition levels, which is expected to further drive the growth of per student expenditure on tuition fees for private higher education in the Integrated Area. The following chart illustrates the historical and estimated total revenue of private higher education in the Integrated Area.

Total Revenue of Private Higher Education Industry (Integrated Area), 2011-2021E

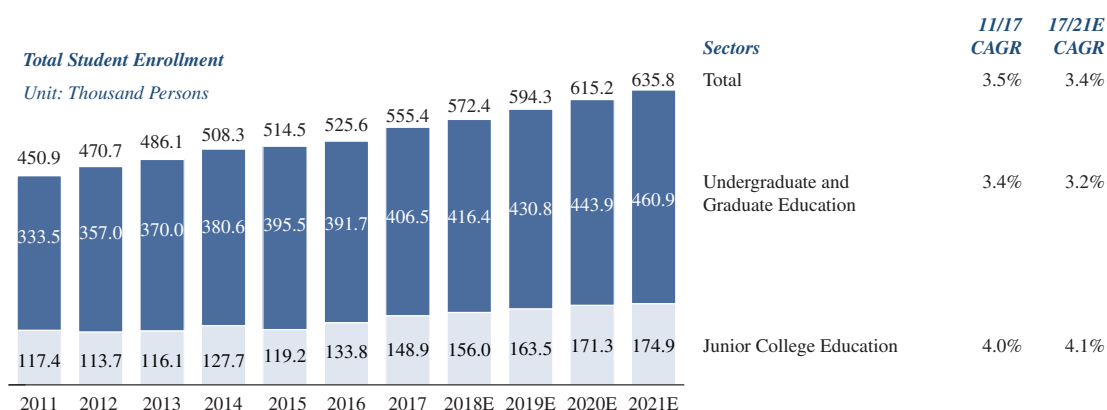


Source: Frost & Sullivan

According to the Frost & Sullivan Report, from 2011 to 2017, the total number of students enrolled in private higher education in the Integrated Area increased from 450.9 thousand to 555.4 thousand, representing a CAGR of approximately 3.5%. It is estimated that the market will continue to grow at a CAGR of 3.4% from 2017 to 2021, according to the Frost & Sullivan Report. While students enrolled in undergraduate and graduate studies occupied the largest proportion, junior college education is also playing an increasingly important role in the Integrated Area. The following chart illustrates the total student enrollment in private higher education in the Integrated Area from 2011 to 2017, as well as a forecast from 2018 to 2021.

INDUSTRY OVERVIEW

Total Student Enrollment in Private Higher Education Industry (Integrated Area), 2011-2021E



Source: Frost & Sullivan

Competitive Landscape of the Private Junior College Market in the Integrated Area, Hebei Province and Shijiazhuang

The private junior college market in each of Shijiazhuang, Hebei Province and the Integrated Area is relatively concentrated. According to the Frost & Sullivan Report, in the 2017-2018 school year, the top five players in the private junior college market in each of Shijiazhuang, Hebei Province and the Integrated Area accounted for 43.1%, 38.1% and 31.7%, respectively, of the overall market share. Our Group ranked second in each of the three geographic regions and accounted for 8.4%, 7.4% and 6.2%, respectively, of the overall market share, with a total of approximately 9,200 junior college students enrolled at our Shijiazhuang Institute of Technology. The following chart illustrates the market share and student enrollment of the top five private junior colleges in each of Shijiazhuang, Hebei Province and the Integrated Area in the 2017-2018 school year.

Market Share of Leading Players in Private Junior College Market, 2017-2018 School Year

Rank	Market Players	Total Student Enrollment (Thousand)	Market Share		
			Shijiazhuang	Hebei Province	Integrated Area
1	Company A	13.6	12.5%	11.0%	9.2%
2	Our Group	9.2	8.4%	7.4%	6.2%
3	Company B	8.3	7.6%	6.7%	5.6%
4	Company C	8.1	7.4%	6.6%	5.4%
5	Company D	7.9	7.2%	6.4%	5.3%
	Total	47.1	43.1%	38.1%	31.7%

THE AFTER-SCHOOL TUTORING INDUSTRY IN CHINA

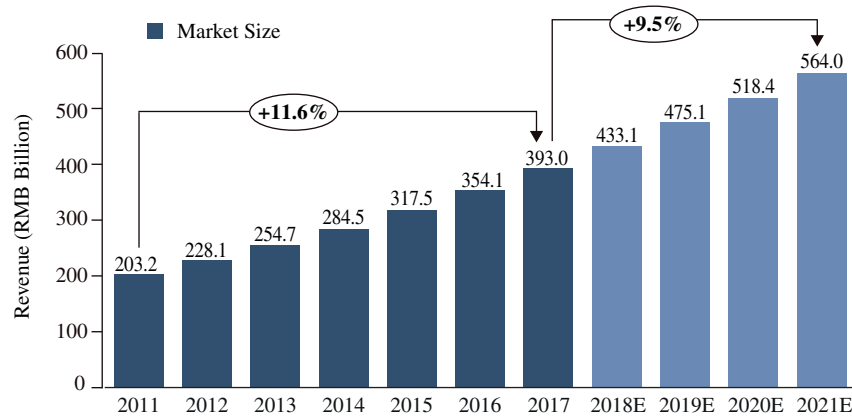
After-school tutoring is a supplement to regular in-school education, which helps students improve their classroom performance, deepen their knowledge acquired at school and better prepare for school entrance exams. According to the Frost & Sullivan Report, after-school tutoring can generally be categorized into one-on-one tutoring, small-class tutoring and large-tutoring based on class sizes.

INDUSTRY OVERVIEW

Market Size and Trends of the After-school Tutoring Industry in China

Revenue from the after-school tutoring industry in China grew from RMB203.2 billion in 2011 to RMB393.0 billion in 2017, representing a CAGR of 11.6%, according to the Frost & Sullivan Report. With the increasing wealth of Chinese households, growing awareness of Chinese parents regarding their children's education and test-oriented admission approach in China, total revenue of after-school tutoring industry will continue to grow at a CAGR of 9.5% from 2017 to 2021, according to the Frost & Sullivan Report. The following chart illustrates the total revenue of the after-school tutoring industry in China from 2011 to 2017, and the forecast of revenue from 2018 to 2021.

Total Revenue of After-school Tutoring Industry (China), 2011-2021E



Source: Frost & Sullivan

Market Drivers of the After-school Tutoring Industry in China

The development of the after-school tutoring industry in China is primarily driven by the following factors:

- **Growing awareness of the importance of education:** Chinese parents have an increasing awareness of the importance of education. With more access to high-quality private and overseas education, many Chinese public schools can no longer meet the demand of parents and students. As such, more students are likely to seek after-school tutoring to help enhance their academic performance at school;
- **Fierce competition among students:** With the relaxation of the “one-child policy” in China in 2013 and the implementation of the “two-child policy” in 2015, the birth rate is expected to continue to grow in the future, which will likely result in even fiercer competition among Chinese students due to limited educational resources available; and
- **Increasing affordability and demand for after-school tutoring services:** With the increase in disposable income of Chinese families and the improvement of living conditions in China, Chinese parents are willing to spend more on students' education, which sustains the growing demand for after-school tutoring services.

INDUSTRY OVERVIEW

THE AFTER-SCHOOL TUTORING INDUSTRY IN THE INTEGRATED AREA, HEBEI PROVINCE AND SHIJIAZHUANG

Market Size and Trends of the After-school Tutoring Industry in the Integrated Area

According to the Frost & Sullivan Report, from 2011 to 2017, the total revenue of after-school tutoring industry in the Integrated Area increased from approximately RMB11.3 billion to approximately RMB24.4 billion, representing a CAGR of 13.7%, and is expected to grow to approximately RMB35.3 billion by 2021, representing a CAGR of 9.7% from 2017.

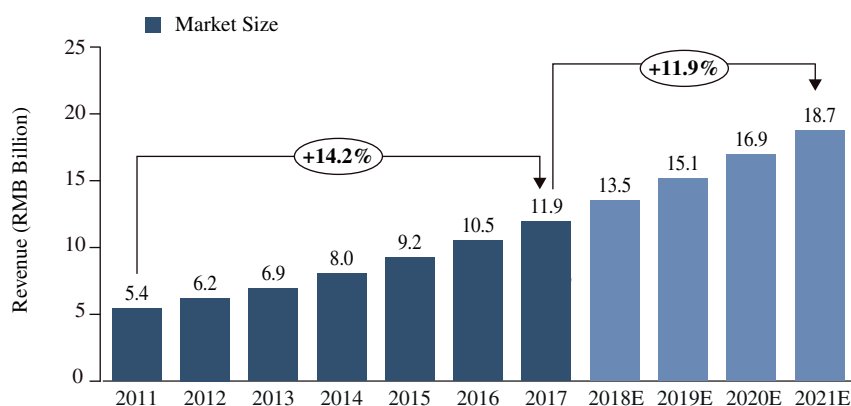
Competitive Landscape of the After-school Tutoring Industry in the Integrated Area

By 2017, the after-school tutoring industry in the Integrated Area was relatively fragmented. The competition is rather fierce in the market, where both national players and regional players compete to gain a larger enrolment. However, the competition among players in the after-school tutoring industry in the Integrated Area is usually locally-based, as students typically have limited ability to choose a tutoring center far from their residences or even outside the city.

Market Size and Trends of the After-school Tutoring Industry in Hebei Province

According to the Frost & Sullivan Report, total revenue from the after-school tutoring industry in Hebei Province grew from RMB5.4 billion in 2011 to RMB11.9 billion in 2017, representing a CAGR of 14.2%, and is expected to continue to grow with a CAGR of 11.9% from 2017 to 2021. According to the Frost & Sullivan Report, average tutoring fees charged by tutoring service providers in Hebei Province are lower than the national average, as the average disposable income of urban population in Hebei is lower than the national average. The following chart illustrates the historical and estimated total revenue of the after-school tutoring industry in Hebei Province.

Total Revenue of After-school Tutoring Industry (Hebei), 2011-2021E



Source: Frost & Sullivan

Competitive Landscape of the After-school Tutoring Industry in Hebei Province

The after-school tutoring market in Hebei Province is highly fragmented. According to the Frost & Sullivan Report, in 2017, the top 10 players in the Hebei after-school tutoring market accounted for 6.3% of the market share. Our Group ranked seventh and accounted for 0.4% of the market with a total revenue of RMB46.0 million. The following chart illustrates the market share and total revenue of the top 10 after-school tutoring service providers in Hebei Province in 2017.

INDUSTRY OVERVIEW

Market Share of Leading Players in After-school Tutoring Market (Hebei), 2017

Rank	Market Players	Total Revenue (Million RMB)	Market Share
1	Company E	153.5	1.3%
2	Company F	128.3	1.1%
3	Company G	100.8	0.9%
4	Company H	97.1	0.8%
5	Company I	53.6	0.5%
6	Company J	48.9	0.4%
7	Our Group	46.0	0.4%
8	Company K	44.3	0.4%
9	Company L	43.5	0.4%
10	Company M	39.5	0.3%
	Others	11,156.2	93.7%
	Total	11,911.7	100.0%

Source: Frost & Sullivan

Competitive Landscape of After-school Tutoring Industry in Shijiazhuang

The after-school tutoring market in Shijiazhuang is highly fragmented. According to the Frost & Sullivan Report, in 2017, the top five players in the Shijiazhuang after-school tutoring market accounted for 15.4% of the market share. Our group ranked fourth and accounted for 2.8% of the market with RMB46.0 million in revenue. The following chart illustrates the market share and total revenue of the top five after-school tutoring service providers in Shijiazhuang in 2017.

Market Share of Leading Players in After-school Tutoring Market (Shijiazhuang), 2017

Rank	Market Players	Total Revenue (Million RMB)	Market Share
1	Company G	58.6	3.6%
2	Company F	55.8	3.4%
3	Company H	46.6	2.9%
4	Our Group	46.0	2.8%
5	Company L	43.5	2.7%
	Others	1,379.1	84.6%
	Total	1,629.6	100.0%

Source: Frost & Sullivan

THE PRIVATE PRESCHOOL EDUCATION INDUSTRY IN CHINA

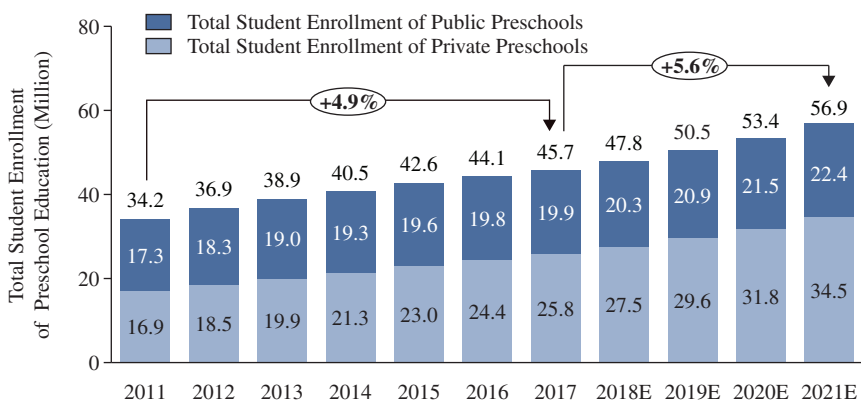
With strong government support, the preschool education industry in China, especially the private preschool education market, has developed rapidly over the past several years according to the Frost & Sullivan Report. Total revenue of the private preschool education industry in China grew significantly from RMB42.3 billion in 2011 to RMB134.8 billion, representing a CAGR of 21.3%. According to the Frost & Sullivan Report, total revenue is expected to grow to RMB235.6 billion in 2021, representing a CAGR of 15.0% from 2017.

Student Enrollment in the Private Preschool Education Industry in China

According to the Frost & Sullivan Report, the number of students enrolled in private preschools has exceeded the number of students in public preschools since 2012. According to the Frost & Sullivan Report, from 2011 to 2017, the total number of students enrolled in private preschools in China increased from 16.9 million to 25.8 million, representing a CAGR of 7.3%. By 2021, the number is expected to increase to 34.5 million, representing a CAGR of 7.5% from 2017, according to the Frost & Sullivan Report. The following chart illustrates the total student enrollment in the preschool education industry in China from 2011 to 2017, as well as a forecast of student enrollment from 2018 to 2021.

INDUSTRY OVERVIEW

Total Student Enrollment in Preschool Education Industry (China), 2011-2021E



Source: Frost & Sullivan

According to the Frost & Sullivan Report, the penetration rate of private preschools in the preschool educational system in China based on student enrollment increased from 49.5% in 2011 to 56.4% in 2017, and is expected to further increase to 60.7% by 2021.

Developmental Trends of the Private Preschool Education Industry in China

According to the Frost & Sullivan Report, key factors driving growth of private preschool education in China include:

- Increasing awareness of the importance of preschool education and willingness to invest in improving, higher quality private education;
- Rapid increases in disposable income in China enabling Chinese parents to invest more on children's education and choose premium preschools with sound operating system and stronger quality of education;
- Increasing emphasis from the PRC government on preschool education as illustrated in the National Medium-to-Long Term Educational Reform and Development Plan (2010-2020), pursuant to which the central government of China plans to achieve universal one-year preschool education by 2020 and has set a series of targets regarding the development of China's preschool industry, including that total student enrollment in China's preschool industry should reach 40.0 million by 2020 while the enrollment rate of one-year preschool education (學前一年毛入園率) should be no less than 95%. The expected increase in student enrollment and enrollment rates are expected to drive further development in China's preschool education industry; and
- The "two-child policy" implemented in October 2015, which is expected to maintain China's birth rate at a stable level and to affect the size of the school-age population in the near future, particularly in preschools first.

THE PRIVATE PRESCHOOL EDUCATION INDUSTRY IN THE INTEGRATED AREA, HEBEI PROVINCE AND SHIJIAZHUANG

Market Size and Trends of the Private Preschool Education Industry in the Integrated Area

According to the Frost & Sullivan Report, total revenue of private preschool school education in the Integrated Area increased from RMB2.8 billion in 2011 to RMB9.0 billion in 2017, representing a CAGR of approximately 21.7%, and is expected to grow to RMB15.6 billion by 2021, representing a CAGR of 14.8% from 2017.

INDUSTRY OVERVIEW

Student Enrollment in the Private Preschool Education Industry in the Integrated Area

According to the Frost & Sullivan Report, from 2011 to 2017, the total number of student enrolled in private preschools in the Integrated Area increased from approximately 0.6 million to approximately 1.2 million, representing a CAGR of 12.7%, and is expected to reach approximately 1.9 million by 2021, representing a CAGR of 10.8% from 2017.

Competitive Landscape of the Private Preschool Education Market in the Integrated Area

By 2017, the private preschool education market in the Integrated Area was relatively fragmented. There were over 5,500 private kindergartens in Integrated Area by the end of 2017. Most operators of private kindergartens are locally-based and parents typically choose kindergartens near to their residences. Thus, there is limited competition among players across the cities or provinces.

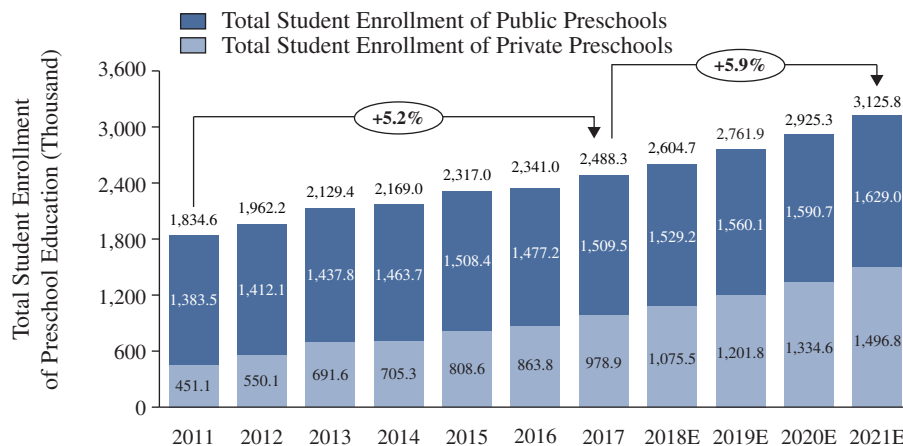
Market Size and Trends of the Private Preschool Education Industry in Hebei Province

According to the Frost & Sullivan Report, total revenue of private preschool education in the Hebei Province grew from RMB958.0 million in 2011 to RMB3.7 billion in 2017, representing a CAGR of 25.3%, and is expected to grow to RMB7.1 billion in 2021, representing a CAGR of 17.8% from 2017.

Student Enrollment in the Private Preschool Education Industry in Hebei Province

According to the Frost & Sullivan Report, from 2011 to 2017, the total number of students enrolled in private preschools in Hebei Province increased from approximately 451,000 to approximately 979,000, representing a CAGR of 13.8%. By 2021, the number is expected to increase to approximately 1.5 million, representing a CAGR of 11.2% from 2017, according to the Frost & Sullivan Report. The following chart illustrates the total student enrollment in the preschool education industry in Hebei Province from 2011 to 2017, as well as a forecast of student enrollment from 2018 to 2021.

Total Student Enrollment in Preschool Education Industry (Hebei), 2011-2021E



Source: Frost & Sullivan

According to the Frost & Sullivan Report, the growth of revenue in the regional market is driven both by the growth of student enrollment and an increase in the level of tuition fees and other expenditure on a per student basis. With continued growth in disposable income, Chinese households have put increasing attention on education, resulting in the rapidly growing demand for education resources. However, education resources, especially premium education resources, remain limited in the market. Thus, the imbalance of supply and demand is expected to result in increasing tuition fees in the near future. In addition, the latest amendment of “Non-governmental Education Promotion Law” (民辦教育促進法) and other related favorable policies have given the operators of private schools more autonomy in setting and adjusting tuition levels, which is expected to further drive the growth of per student expenditure on tuition fees for preschool education in the Integrated Area and Hebei Province.

INDUSTRY OVERVIEW

Competitive Landscape of the Private Preschool Education Market in the Hebei Province

The private preschool education market in Hebei Province is highly fragmented. According to the Frost & Sullivan Report, in the 2017-2018 school year, the top 10 players in the Hebei private preschool education market accounted for 3.7% of the market share. Our group ranked eleventh and accounted for 0.2% of the market with approximately 1,800 of total student enrollment.

Competitive Landscape of the Private Preschool Education Market in Shijiazhuang

The private preschool education market in Shijiazhuang is highly fragmented. According to the Frost & Sullivan Report, in the 2017-2018 school year, the top five players in the Shijiazhuang private preschool education market accounted for 8.6% of the market share. Our group ranked second and accounted for 1.4% of the market with approximately 1,800 of total student enrollment. The following chart illustrates the market share and student enrollment of the top five private preschools in Shijiazhuang in the 2017-2018 school year.

Market Share of Leading Players in Private Preschool Education Market (Shijiazhuang), 2017-2018 School Year

Rank	Market Players	Total Student Enrollment (Thousand)	Market Share
1	Company N	5.5	4.2%
2	Our Group	1.8	1.4%
3	Company O	1.7	1.3%
4	Company P	1.4	1.1%
5	Company Q	1.0	0.8%
	Others	120.0	91.2%
	Total	131.4	100.0%

Source: Frost & Sullivan

ENTRY BARRIERS FOR THE PRIVATE EDUCATION INDUSTRY IN CHINA

According to the Frost & Sullivan Report, the PRC private education industry has fairly high entry barriers. 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 and comply with specific registration and filing requirements. Also, the establishment of a private school in China is subject to approvals under the Law for Promoting Private Education and the Implementation Rules for the Law for Promoting Private Education. The lengthy, complex and uncertain application process has become a natural entry barrier especially for new school operators;
- **Brand awareness and ability to attract students:** Students and their parents show strong preference for well-known schools with long histories and well-established reputations. The significant amount of time needed to achieve such status poses obstacles for new entrants to attract sufficient students;
- **Capital requirements and major costs:** Establishing a new school in China requires large capital investment for the construction of school campuses and facilities as well as other related costs, such as salaries and other benefits of teachers, both initially and generally on an on-going basis. Therefore, the ability for school operators to secure sufficient capital is critical;
- **Availability of land and relevant facilities:** Insufficient land resources, challenged availability of relevant facilities and rising rental costs in certain cities in China are imposing higher capital and time cost for establishment of new schools and for existing schools to establish branches in new locations; and
- **Availability of qualified teaching staff:** The quality of teaching staff has a direct influence over the quality of education services provided by the school operator. Given the general demand for smaller class size and shortage of teaching staff, school operators who wish to expand their schools are facing more pressure. In addition, high quality teachers would usually prefer to work for public schools and well-established private schools. Thus, it is more difficult for new entrants in the private education industry to attract the highly qualified teachers.

LAWS AND REGULATIONS RELATING TO THE INDUSTRY

Foreign Investment in Education Industry

Catalogue for the Guidance of Foreign Investment Industries

Pursuant to the Catalogue for the Guidance of Foreign Investment Industries (Revised in 2017) 《外商投資產業指導目錄(2017年修訂)》 (the “2017 Catalogue”), which was amended and promulgated by the NDRC and the MOFCOM on June 28, 2017 and became effective on June 28, 2017, preschool education, ordinary high school education and higher education belong to restricted category and are limited to the cooperative joint venture operations led by Chinese parties, which means the principal or the chief executive officer of such schools shall be a PRC national, and the representatives of Chinese parties in the board of directors, the executive council or the joint administration committee of the Sino-foreign Cooperative Educational Institution shall be no less than 50%. Foreign investment is prohibited from compulsory education, namely primary school and middle school, according to the 2017 Catalogue.

Sino-foreign Cooperative Education

The State Council promulgated the Regulations of the PRC on Sino-foreign Cooperative Education 《中華人民共和國中外合作辦學條例》 (the “Regulations on Sino-foreign Cooperative Education”) on March 1, 2003, which was amended and became effective on July 18, 2013, and the MOE promulgated the Implementing Measures for the Regulation of the PRC on Sino-foreign Cooperative Education 《中華人民共和國中外合作辦學條例實施辦法》 on June 2, 2004, which became effective on July 1, 2004. These regulations shall govern the establishment of educational institutions in the PRC by foreign educational institutions together with Chinese educational institutions that mainly aim to enroll Chinese citizens. Foreign educational institutions, other foreign institutions or individuals alone shall not establish educational institutions that mainly aim to enroll Chinese citizens in the PRC. The Chinese and foreign cooperators applying to establish a Sino-foreign cooperative educational institution shall have relevant educational qualifications and be qualified to provide high quality education services.

Sino-foreign cooperative educational institutions may not conduct compulsory education or education with a special nature, such as military, police training or political education in the PRC.

All the Sino-foreign cooperative educational institutions shall be approved by the competent government authority, and the Sino-foreign cooperative educational institutions shall obtain the Sino-foreign cooperative education operating licenses (中外合作辦學許可證). Application to establish Sino-foreign cooperative educational institution providing education services at or above undergraduate level shall be subject to examination and approval of the State Council; application to establish Sino-foreign cooperative educational institution providing high-level professional training or informal education services shall be subject to examination and approval of the people’s government of the province, autonomous region, or municipality directly under the Central Government where the institution is to be located. Application to establish Sino-foreign cooperative educational institution providing mid-level formal education, self-education courses, after-school education or preschool education shall be subject to examination and approval of the administrative department for education under the people’s government of the province, autonomous region, or municipality directly under the Central Government where the institution is to be located. Sino-foreign cooperative educational institution established without approval shall be banned by relevant administrative department, ordered to refund the fees collected from its students and fined up to RMB100,000.

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According to the Implementing Opinions on Encouraging and Guiding the Private Funds into the Educational Field to Promote Healthy Development of Private Education 《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》, which was promulgated by the MOE on June 18, 2012, the proportion of offshore funds in a cooperative educational institution shall be lower than 50%.

Foreign Investment Law of the PRC (Exposure Draft)

The MOFCOM promulgated the Foreign Investment Law of the PRC (Exposure Draft) 《中華人民共和國外國投資法(草案徵求意見稿)》 (the “Draft Foreign Investment Law”) and its explanatory notes (the “Explanatory Notes”) on January 19, 2015, which explained the guiding ideology of the Draft Foreign Investment Law, the basic principal, the main contents, the interim plans and the approaches to handle the foreign investment of which foreign investors gain control via contract. If the Foreign Investment Law of the PRC was passed and took into effect in the future, it will entirely replace the current foreign investment legal framework, i.e. the Sino-foreign Equity Joint Ventures Law of the PRC 《中華人民共和國中外合資經營企業法》, the Sino-foreign Cooperative Joint Ventures Law of the PRC 《中華人民共和國中外合作經營企業法》 and the Law of the PRC on Wholly Foreign-Owned Enterprises 《中華人民共和國外資企業法》 (the “Wholly Foreign-Owned Enterprises Law”).

The Draft Foreign Investment Law adopts a unified access system for foreign investment, and will issue a Catalogue of Special Administrative Measures (特別管理目錄) (the “Negative List”), which applies to the foreign investment on prohibited and restricted industry sectors. At the same time, on March 2, 2016, NDRC and MOFCOM promulgated the Market Access Negative List (Pilot) and on June 5, 2017, the State Council issued the Special Management Measures for the Market Entry of Foreign Investment in Pilot Free Trade Zones (Negative List) (2017), both of which are applicable in Tianjin, Shanghai, Fujian and Guangdong, under which the restrictions and/or prohibitions on foreign investment in primary schools, middle schools and high schools still exist. The Draft Foreign Investment Law also provides that any FIEs operating in industries on the negative list will require entry clearance and other approvals that are not required of PRC domestic entities. As a result of the entry clearance and approvals, certain FIE’s operating in industries on the negative list may not be able to continue to conduct their operations through contractual arrangements.

Foreign investors acquiring shares, equities, share of properties, voting rights or other similar interests of a domestic enterprise, or controlling a domestic enterprise via contracts shall be recognized as the “foreign investment” for the purpose of the Draft Foreign Investment Law. Unless otherwise provided by the State Council, such domestic enterprise shall not engage in any prohibited industries mentioned in the Negative List; and shall only engage in the restricted industries mentioned in the Negative List upon the approval of the competent authority of foreign investment.

Foreign investors or foreign-invested enterprises conducting investments on the prohibited industries listed in the Negative List, or on the restricted industries listed in the Negative List without approval, shall be asked to stop such investment, or to dispose the equity or other assets within a prescribed time limit. The competent authority of foreign investment shall also confiscate illegal gains, or impose a fine counting from RMB100,000 to RMB1,000,000 or up to 10% of the illegal investment.

However, if a foreign investor conducting investment within the restricted industry listed in the Negative List is controlled by a PRC investor, it can submit documentary evidence to demonstrate that its investment can be identified as the investment of the PRC investor.

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As for the variable interest entity structure (the “VIE structure”), the Explanatory Notes does not provide explicit instructions on how to deal with the existing foreign investments through the VIE structure, which may engage in the restricted industries provided by the Negative List, after the Draft Foreign Investment Law becoming effective. However, it does have provided three solutions for such foreign-invested enterprise with the VIE structure:

- (i) declaring to the competent department of foreign investment under the State Council that it is “actually controlled” by PRC investor to keep the VIE structure, and the relevant body shall continue its operation;
- (ii) applying to the competent department of foreign investment under the State Council to affirm that it as been “actually controlled” by PRC investor; once being recognized, it shall keep the VIE structure and the relevant body shall continue its operation;
- (iii) applying for the accessing permit to the competent department of foreign investment under the State Council, which will make a decision based on a comprehensive consideration of factors including the “actual controller” of such foreign-invested enterprise.

Education Law of the PRC

Under the Education Law of the PRC 《中華人民共和國教育法》 (the “Education Law”), which was promulgated by the National People’s Congress in 1995 and was amended by the Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人民代表大會常務委員會, the “Standing Committee of the NPC”) on August 27, 2009, the State encouraged enterprises, institutions, social groups, social organizations and individuals to establish and operate non-profit schools or other non-profit educational institutions, in accordance with the PRC laws and regulations. However, pursuant to the Education Law revised by the Standing Committee of the NPC on December 27, 2015, which took effect on June 1, 2016, such provision prohibition was narrowed and schools or other educational institutions, if founded by fiscal expenditure or donated assets, shall be non-profit.

The Education Law has stipulated the basic requirements which shall be fulfilled in order to establish a school or other educational institution. It also provides that the establishment, alternation or termination of a school or other educational institution shall, in accordance with the relevant PRC laws and regulations, go through the procedures of examination, authorization, registration or filing.

Higher Education

Under the Higher Education Law of the PRC 《中華人民共和國高等教育法》 (the “Higher Education Law”), which was promulgated by the Standing Committee of the NPC on August 29, 1998, became effective on January 1, 1999 and was then amended on December 27, 2015 and became effective on June 1, 2016, the higher education contains the formal education and the informal education. The formal higher education includes junior college education, undergraduate education and graduate education. The higher education is conducted by higher schools (高等學校) and other higher educational institutions (其他高等教育機構). The universities and independent colleges mainly conduct undergraduate or above education; the junior colleges conduct the junior college education; other higher educational institutions conduct the informal higher education. Higher schools refer to the universities, independent colleges and junior colleges, which include higher vocational schools and higher educational schools for adults. Other higher educational institutions refer to the organizations conducting higher education other than the higher schools and the scientific research institutions undertaking graduate education upon approval. The establishment of higher schools conducting undergraduate education or above shall be examined and approved by the administrative department for education under the State Council; the establishment of junior college shall be examined and approved by the people’s government of province, autonomous

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region or municipality directly under the Central Government; the establishment of other higher educational institutions shall be examined and approved by the administrative department for education under the people's government of province, autonomous region or municipality directly under the Central Government.

Private Education

Establishment of Private Schools

According to the Law on the Promotion of Private Schools of the PRC 《中華人民共和國民辦教育促進法》 (the “Private Schools Promotion Law”), which was promulgated by the Standing Committee of the NPC on December 28, 2002 and was revised on June 29, 2013, and to the Implementation Rules for the Law on Promotion of Private Schools of the PRC 《中華人民共和國民辦教育促進法實施條例》, which was promulgated by the State Council on February 25, 2004 and became effective on April 1, 2004, the requirements of the establishment of private schools shall conform to those of the establishment of public schools of the same grade and same type. The establishment of private schools conducting formal education, preschool education, education for self-study examination and other education shall be examined and approved by the administrative department for education at or above the county level, while the establishment of private schools conducting vocational qualification training and vocational skill training shall be examined and approved by the administrative department for labor and social welfare at or above the county level and shall make a copy to the administrative department for education at the same level for record. A duly approved private school will be granted an operating license (辦學許可證), and shall be registered with the administrative department for civil affairs as a private non-enterprise institution (民辦非企業單位).

School Sponsor's Reasonable Returns

The private education belongs to the common weal according to the relevant laws and regulations. Nevertheless, the school sponsors may obtain reasonable returns from dividends after deduction of costs for school operations, donations received, government subsidies, the reserved development fund and other expenses as required by the regulations prior to the latest amendment of the Private Schools Promotion Law set out in “– The Latest Development of Private School Regulations” in this section.

If the school sponsors ask for reasonable returns, private schools may consider the following factors when determining the ratio of the reasonable returns derived from the abovementioned dividends:

- items and criteria to charge school fees;
- the proportion of school's expenditure for educational activities and improving the education conditions upon the charged fees;
- the level and quality of the education. (There is no different stipulations or restrictions on the level or quality of the education, whether or not the school sponsors ask for reasonable returns.)

The private schools whose sponsors do not ask for reasonable returns enjoy the same preferential tax treatment or other preferential treatments as those enjoyed by public schools; while the preferential tax treatment for private schools whose sponsors ask for reasonable returns shall be formulated by the administrative department for finance and the administrative department for taxation under the State Council together with other relevant administrative departments. However, no such regulation has been promulgated yet.

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Private Higher Schools

Pursuant to the Several Provisions on the Operation Management of Private Higher Schools 《民辦高等學校辦學管理若干規定》, which was promulgated by the MOE on February 3, 2007 and was amended on November 10, 2015, the operation conditions of private higher schools shall conform to the establishment standards prescribed by the state and the basic operation requirements of the regular higher schools. Private higher schools shall organize the admission work and conduct educational activities in accordance with the name, location, school type and education level specified in the operating licenses.

Collection of Private Education Fees

Pursuant to the Interim Measures for the Management of Collection of Private Education Fees 《民辦教育收費管理暫行辦法》, which was promulgated by the NDRC, the MOE and the Ministry of Labor and Social Security of the PRC (currently known as the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) (the “MOHRSS”) on March 2, 2005 and took effect on April 2, 2005, private schools may charge the educatees for tuition (or training expenses) and may also charge the students accommodating at school for an accommodation fee. The charging standards of the private school conducting formal education shall be examined by the administrative department for education or the administrative department for labor and social security and be approved by the competent pricing authority. The private school providing informal education may determine its own charging standards and file with the competent pricing authority.

Under the Interim Measures for the Management of Collection of Kindergarten Fees 《幼兒園收費管理暫行辦法》, which was promulgated by the NDRC, the MOE and the MOF on December 31, 2011 and became effective on January 31, 2012, the charging standards on the teaching and caring fees and the residential fees of the private kindergartens shall be conducted after filing with the local competent pricing authority and the administrative department for education.

According to the Notice of the NDRC and the MOF on Cancellation of Fee Charge Permit System and Reinforcement of the Inwards and Afterwards Supervision 《國家發改委、財政部關於取消收費許可證制度加強事中事後監管的通知》, which was promulgated by the NDRC and the MOF on January 9, 2015, the fee charge permit system was cancelled nationwide. The Price Bureau of Hebei Province (河北省物價局) together with the Hebei Department of Finance (河北省財政廳) promulgated the Notice on Cancellation of Fee Charge Permit System and Reinforcement of the Inwards and Afterwards Supervision 《關於取消收費許可證制度加強事中事後監管的通知》, according to which, the fee charge permit system was cancelled in Hebei Province from May 1, 2015.

The Latest Development of Private School Regulations

The Latest Amendment of the Private Schools Promotion Law

On November 7, 2016, the Standing Committee of the NPC passed the Amendment Decision, which took effect on September 1, 2017.

Pursuant to the Amendment Decision, the sponsors of private schools shall make their own choice on whether to establish the for-profit or the non-profit private schools. However, the for-profit private schools shall not be engaged in the compulsory education. The sponsors of a non-profit private school shall not obtain any profits from the school's operation, and all the balance of such private school shall be used on its operation. The sponsors of a for-profit private school may obtain operation profits, and the balance of such private school shall be allocated in accordance with relevant laws and regulations of the PRC, such as the PRC Company Law.

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According to the Amendment Decision, the charging items and standards of a private school shall be determined based on the cost of school operation, the market requirements and other factors, and shall be published to the public and supervised by the relevant authorities. The explicit charging policy of non-profit private schools shall be formulated by the people's government of the province, autonomous region, or municipality directly under the Central Government; the charging standards of for-profit schools may be determined by themselves.

Based on the Amendment Decision, the private schools enjoy the preferential tax treatments provided by the State. Furthermore, the non-profit private schools enjoy the same preferential tax treatment as that for the public schools.

In the light of the Amendment Decision, when a private school is terminated, the remaining assets of a non-profit private school after debt retirement shall continue to be used in the operation of other non-profit schools; the remaining assets of a for-profit private school after debt retirement shall be disposed in accordance with relevant provisions of the PRC Company Law.

The Amendment Decision also provides that private schools established before the promulgation of the Amendment Decision chosen to be registered as non-profit private schools shall continue their operation on the basis of the bylaws, which are revised in accordance to the Amendment Decision. When those private schools are terminated, the remaining assets, if any, after required retirements, can be partly used as complements or rewards to the school sponsors based on their application and a comprehensive consideration of the investments, the reasonable returns, the operation benefits and other factors before the effective of the Amendment Decision, other remaining assets shall continue to be used in the operation of other non-profit schools. Private schools established before the promulgation of the Amendment Decision chosen to be registered as for-profit private schools shall go through accounting and audit, ownership identification, payment of applicable taxes, re-registration and continue operation, and the implementing methods shall be formulated by province, autonomous region, or municipality directly under the Central Government.

Several Opinions on Encouraging Social Support for Education to Promote Private Education

The State Council has released the Several Opinions on Encouraging Social Support for Education to Promote Private Education 《國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見》 on December 2, 2016, which propound innovating educational system to promote the sustainable development of private education, and the main opinions provided in which includes but not limited to: (i) Private schools should be managed under the categories of profit-oriented and nonprofit. And both categories should give priority to school sponsor's choice; (ii) Governments at all levels are required to enhance their financial support for private education in accordance with related laws and regulations. The funds used in this regard should be included in the government budget and made open to the society, with an aim to improve the efficiency in fund usage; (iii) Encouraging and attracting social funds for school-establishment or projects in the field of education. Innovating educational investment and financing mechanism, attracting social funds via multiple channels, broadening the financial channels for private schools; (iv) Private schools will enjoy a series of preferential tax policies in accordance with national regulations; (v) Non-profit private schools enjoy the same land policy as that for public schools and get lands by way of land allocation. For-profit schools shall get lands in accordance with national regulations and policies; (vi) The charging standards of non-profit private schools shall be determined by the people's government of the province, while for-profit private schools may determine its own charging standards on a market regulating bases.

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Implementing Rules on Classification Register of Private Schools

According to the Implementing Rules on Classification Register of Private Schools 《民辦學校分類登記實施細則》 (the “Classification Register Rules”), which was issued by the MOE, the MOHRSS, the Ministry of Civil Affairs of the PRC (中華人民共和國民政部) together with the State Commission Office of Public Sectors Reform (中央機構編制委員會辦公室) and the SAIC on December 30, 2016 but yet with any definite effective time, private school approved to be established shall apply for registration certificate or business license in accordance with relevant regulations after being granted with operating license by competent government authorities.

The Classification Register Rules are also applicable to private schools which established before the promulgation of the Several Opinions on Encouraging Social Support for Education to Promote Private Education (“Existing Private Schools”). If an Existing Private School chooses to register as a non-profit private school, it shall amend its articles of association in accordance with laws, continue operation, and complete the new registration procedure. If an Existing Private School chooses to register as a for-profit private school, it shall conduct financial settlement, clarify the ownership of the school’s land, buildings and operation accumulations with the consent of the relevant departments of the people’s governments at or below the provincial level and pay relevant taxes and fees, obtain new operating license, re-register and continue operation. The provincial people’s government is responsible for making the detailed regulatory measures on the alteration register of the private schools on the basis of relevant laws and local realities.

Implementing Rules for the Supervision and Administration of For-Profit Private Schools

According to the Implementing Rules for the Supervision and Administration of For-Profit Private Schools 《營利性民辦學校監督管理實施細則》, which was jointly issued by the MOE, the MOHRSS and the SAIC on December 30, 2016, social organizations or individuals may establish for-profit private colleges and universities and other higher educational institutions, high schools and kindergartens, but are prohibited from establishing for-profit private schools conducting compulsory education.

A social organization or individual running a for-profit private school shall have the financial strength appropriate to the level, type and scale of the school, and their net assets or monetary funds shall be able to satisfy the costs of the school construction and development. Furthermore, the social organization running the for-profit private school shall be a legal person who is in good credit standing, and shall not be listed as an enterprise operating abnormally or be listed as an enterprise that is in material non-compliance with the laws or be dishonest. Individuals running for-profit private schools should be PRC citizens who reside in China, be in good credit standing without any criminal record and enjoy political rights and complete civil capacity. For-profit private school, which has been approved to be established, shall register with the industry and commerce departments.

For-profit private schools shall establish a board of directors, boards of supervisors (or supervisors), administrative organs, organizations of the Communist Party of China, an employee representatives’ assembly as well as a labor union. The Secretary of the Communist Party of China shall be a member of the board of directors and of the administrative organs of the school and no less than 1/3 of the members of the board of supervisors of the school shall be the employee representatives.

For-profit private school shall implement the financial and accounting system required by the PRC Company Law and other relevant regulations and include all of their income into their financial accounts and issue legal invoices and other documents as required by tax authorities for such income. For-profit private schools enjoy legal person property rights and shall be entitled to manage and use all of their assets in accordance with applicable regulations in their duration. The sponsors of for-profit private schools shall neither withdraw his/her share of the registered capital nor mortgage the teaching facilities for loans or guarantees. The balance of the school operation could only be distributed upon the annual financial settlement.

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For-profit private schools shall, in accordance with the Provisional Regulations on Enterprise Information Publicity (企業信息公示暫行條例), publicize their credit information such as annual report information, administrative license information and administrative penalty information through the national enterprise credit information publicity system. In addition to information that has been made public by the school, the social organizations or individuals could make a written application to the school for additional information.

Any division, merger, termination and other major changes of for-profit schools shall be subject to the approval of the board of directors of the schools, the approval of the relevant government authorities as well as the registration requirements set by the industry and commerce departments. Any division, merger, termination or change of name of for-profit private undergraduate colleges and universities shall be subject to the approval of the Ministry of Education while other alteration matters shall be approved by the relevant provincial government.

The Implementation Opinions on Encouraging Social Support to Promote the Healthy Development of Private Education by the People's Government of Hebei Province

The People's Government of Hebei Province issued the Implementation Opinions on Encouraging Social Support to Promote the Healthy Development of Private Education (《河北省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) on January 3, 2018. The main opinions contained therein include but not limited to: (i) if a school chooses to register as a non-profit private school, it shall not convert to a for-profit private school; if a school chooses to register as a for-profit private school, it is allowed to convert to a non-profit private school; (ii) private schools which established before the promulgation of the Amendment Decision should be subject to a five-year interim period and be managed under the categories of either for-profit or non-profit schools by September 1, 2022. During the interim period, the existing administrative measures shall apply to the Existing Private Schools; (iii) non-profit private schools shall enjoy the same treatments with the public schools, and be exempt from corporate income tax with respect to their non-for-profit incomes. Incomes derived from education and nursing services for children and formal education of private schools shall be exempt from the VAT. Private tutorial institutions that meet the general taxpayer's qualifications may choose to pay the VAT using the simplified tax calculation method for provision of non-credential education services; and (iv) for-profit private schools can acquire lands by means of land assignment; whereas non-profit schools can acquire lands by means of land allocation.

Kindergartens

The Regulations on the Management of Kindergartens 《幼兒園管理條例》, which was promulgated by the then called National Education Committee of the PRC (中華人民共和國國家教育委員會, the "NEC") on September 11, 1989 and became effective on February 1, 1990, applies to the kindergartens admitting, nursing and educating preschool children over 3 years old. The nursery staffs, educators, medical staffs and other staffs in the kindergartens shall be qualified in accordance with the PRC laws and regulations. The kindergartens may be operated after registered with the administrative department for education.

Safety and Health Protection of Schools

Health

Pursuant to the Regulations on the Sanitary Work of Schools 《學校衛生工作條例》, which was enacted by the NEC on June 4, 1990, regular higher schools shall equip with school hospitals or health departments in charge of the health care of teachers and students.

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According to the Administrative Regulations on Medical Institutions 《醫療機構管理條例》, which was promulgated by the State Council on February 26, 1994 and became effective on September 1, 1994, and to the Implementation Measures of the Administrative Regulations on Medical Institution 《醫療機構管理條例實施細則》, which was promulgated by the Ministry of Health of the PRC (中華人民共和國衛生部, the “MOH”, currently known as the National Health and Family Planning Commission of the PRC, 中華人民共和國國家衛生和計劃生育委員會) on August 29, 1994 and became effective on September 1, 1994, medical institutions shall apply to the administrative department of health for the medical institution practicing license (醫療機構執業許可證) before operation.

Pursuant to the Administrative Measures on Healthcare of Nursery and Kindergarten 《托兒所幼兒園衛生保健管理辦法》, which was promulgated by the MOE together with the MOH on September 6, 2010 and became effective on November 1, 2010, nursery and kindergarten shall equip with health centers and on-site medical staff or health care personnel to take charge of the sanitary work.

Refectory

Under the Food Safety Law of the PRC 《中華人民共和國食品安全法》, which was amended by the Standing Committee of the NPC on April 24, 2015 and became effective on October 1, 2015, the refectories of schools, nurseries, kindergartens and other institutions equipped with dining halls shall obtain relevant permit on catering services from the food and drug administrative department at or above the county level strictly in accordance with the PRC laws, regulations and the food safety standards (食品安全標準).

Safety

Under the Administrative Measures on Security Management for Primary School, Secondary School and Kindergartens 《中小學幼兒園安全管理辦法》, which was formulated by the MOE, the Ministry of Public Security of the PRC (中華人民共和國公安部), the Ministry of Justice of the PRC (中華人民共和國司法部), the Ministry of Construction of the PRC (中華人民共和國建設部), the Ministry of Transport of the PRC (中華人民共和國交通部), the Ministry of Culture of the PRC (中華人民共和國文化部), the MOH, the SAIC together with the General Administrative of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫局) and the General Administration of Press and Publication of the PRC (中華人民共和國新聞出版總署) and became effective on September 1, 2006, kindergartens shall equip with full-time or part-time security personnel.

According to the Administrative Regulations on Management of Security Service 《保安服務管理條例》, which was promulgated by the State Council on October 13, 2009 and became effective on January 1, 2010, enterprise hiring security personnel shall file with the local public security administrative.

Schooling Conditions

Under the Basic Conditions for Operating Higher Education Institutions (Trial) (普通高等學校基本辦學條件指標(試行)) promulgated by the MOE on February 6, 2004, for a technology school providing higher vocational education, the ratio between its teaching and administrative building area and its number of students should not be lower than nine sq.m. per student. Under the above regulation, for a technology school providing higher vocational education, the ratio between its school site area and its number of students should not be lower than 59 sq.m. per student, and such ratio belongs to the monitoring index, which is the supplement to the basic index and primarily reflects the improvement of the operation conditions of such institution, and the relevant legislations do not state any legal consequences for a breach of the monitoring index.

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Under the Basic Standards for Private Kindergartens in Hebei Province (Ji Jiao Zheng Fa [2013] No. 56) (河北省民辦幼兒園設置基本標準(冀教政法[2013]56號)) promulgated by the Education Department of Hebei Province (河北省教育廳) in 2013, the ratio between building area of a private kindergarten and its number of students should not be lower than 3.5 sq.m. per student.

There are no applicable laws and regulations in the PRC that regulate the ratio between site/building area and number of students for tutorial schools.

LAWS AND REGULATIONS RELATING TO LABOR

Employment Contracts

The Labor Contract Law of the PRC 《中華人民共和國勞動合同法》 (the “Labor Contract Law”), which was promulgated by the Standing Committee of the NPC on June 29, 2007 and became effective on January 1, 2008, and was amended on December 28, 2012 and became effective on July 1, 2013, governs the relationship between employers and employees, and provides specific provisions in relation to the terms and conditions of an employment contract. The Labor Contract Law stipulates that the employment contract must be in writing and be signed. It imposes stringent requirements on the employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees.

Employee Social Insurance and Housing Provident Funds

Under applicable PRC laws and regulations, including the Social Insurance Law of The PRC 《中華人民共和國社會保險法》, which was promulgated by the Standing Committee of the NPC on October 28, 2010 and became effective on July 1, 2011, and the Regulations on the Administration of Housing Provident Fund 《住房公積金管理條例》, which was amended by the State Council on March 24, 2002, employers and/or employees (as the case may be) are required to contribute to a number of social security funds, including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and to housing provident funds as well. These payments are made to local administrative authorities. Employers who fail to contribute the above-mentioned funds may be fined and ordered to rectify within a stipulated time limit.

LAWS AND REGULATIONS RELATING TO THE TAXATION

Enterprise Income Tax

According to the EIT Law, which was promulgated by the NPC on March 16, 2007 and became effective on January 1, 2008, and to the Implementation Rules, which was promulgated by the State Council on December 6, 2007 and became effective on January 1, 2008, enterprises are divided into resident enterprises and non-resident enterprises. Resident enterprises shall pay enterprise income tax on their incomes obtained in and outside the PRC at the rate of 25%. Non-resident enterprises setting up institutions in the PRC shall pay enterprise income tax on the incomes obtained by such institutions in and outside the PRC at the rate of 25%. Non-resident enterprises with no institutions in the PRC, and non-resident enterprises whose incomes having no substantial connection with their institutions in the PRC, shall pay enterprise income tax on their incomes obtained in the PRC at a reduced rate of 10%.

According to the Notice of the MOF and the SAT on Tax Policies Relating to Education 《財政部、國家稅務總局關於教育稅收政策的通知》 (the “Circular 39”), which was promulgated on February 5, 2004 and became effective on January 1, 2004, and the Notice of the MOF and the SAT on Issues Concerning Strengthening the Administrative over the Collection of Business Tax on Education Services 《財政部、國家稅務總局關於加強教育勞務營業稅徵收管理有關問題的通知》 (the “Circular 3”), which

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was promulgated on January 12, 2006 and became effective on January 1, 2006, schools are not required to pay enterprise income tax on fees which collected upon approval and incorporated under the fiscal budget management, or under the special account management of the funds outside the fiscal budget. Schools are not required to pay enterprises income tax on the financial allocations and the special subsidies, which obtained from government authorities or institutions at higher levels, as well.

According to the Private Schools Promotion Law and its implementing rules, private schools that do not require reasonable returns enjoy the same preferential tax treatment as that for public schools. Meanwhile, the preferential tax treatment policies applicable to private schools that require reasonable returns are to be formulated by the relevant authorities under the State Council.

Enterprise Income Tax on Indirect Transfer by Non-Resident Enterprises

Pursuant to the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises 《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》 (the “Circular 7”), which was promulgated by the SAT and became effective on February 3, 2015, if a non-resident enterprise indirectly transfers equities and other assets of a resident enterprise to evade its obligation of paying enterprise income tax by implementing arrangements that are not for reasonable commercial purpose, such indirect transfer shall, in accordance with the Article 47 of the EIT Law, be re-identified and recognized as a direct transfer of equities and other assets of the resident enterprise.

The assets, such as the equity of resident enterprises, mentioned in the Circular 7, refer to the assets directly hold by non-resident enterprises and the assets, properties or equity interests obtained by non-resident enterprises, which shall pay the enterprise income tax in accordance with relevant PRC tax regulations (the “Chinese taxable assets”).

Indirect transfer of the Chinese taxable assets means that non-resident enterprises transfer the equity or similar interests of a foreign enterprise (not including the offshore-registered resident enterprises), which directly or indirectly holds the Chinese taxable assets, bringing the same or similar effects as those of the direct transfer of Chinese taxable assets, which also includes a shareholder-change results from the reorganization of such non-resident enterprise.

Pursuant to the Circular 7, indirect transfer of the Chinese taxable assets may not be re-identified as a direct transfer of equities or other assets of the resident enterprise in accordance with the Article 47 of the EIT Law if one of the following circumstances is satisfied: (i) a non-resident enterprise buys and sells equity of the same listed foreign enterprise in the open market and obtains the proceeds from indirect transfer of Chinese taxable assets; and (ii) a non-resident enterprise directly holds and transfers Chinese taxable assets, the proceeds from the transfer of such assets can be exempted from enterprise income tax in the PRC in accordance with the applicable provisions of tax conventions or arrangements.

According to the Circular 7, the indirect transfer of Chinese taxable assets shall be recognized as having reasonable commercial purpose if it conforms to the following conditions simultaneously:

- the transaction parties are in any of the following equity relations:
 - (a) the equity transferor holds, directly or indirectly, more than 80% of the transferee’s equity;
 - (b) the equity transferee holds, directly or indirectly, more than 80% of the transferor’s equity; or
 - (c) more than 80% of the equity of the transferee and transferor is held, directly or indirectly, by the same party.

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If more than 50% (exclusive) of the value of a foreign enterprise's equity is generated from, directly or indirectly, the immovable properties in the PRC, the shareholding ratio aforementioned in (a) to (c) should be 100%.

The aforementioned indirectly held equity shall be calculated according to the product of shareholding ratios of all enterprises in the shareholding chain;

- the Chinese income tax on the possible indirect transfer afterwards shall be no less than that on the same or similar transactions if the current indirect transaction did not occur; and
- the equity transferee pays all the transfer considerations with the equity of its enterprise or with the equity of the enterprise with which it has shareholding relationship (excluding equities of a listed company).

Income Tax In Relation To Dividend Distribution

Under Implementing Rules for the Law of the PRC on Wholly Foreign-Owned Enterprises 《中華人民共和國外資企業法實施細則》 which was amended by the State Council on February 19, 2014, foreign-invested enterprises may not distribute after-tax profits unless they have made allocations to reserve funds and to bonus and welfare funds for their employees as required by the PRC laws and regulations, and have set off financial losses of the previous accounting years.

According to the EIT Law and the Implementation Rules, dividends paid to its foreign investors are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC government provide otherwise.

The PRC government and the Hong Kong government entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》 (the "Arrangement") on August 21, 2006. According to the Arrangement, the withholding tax rate on dividends paid by a PRC resident to its shareholder, who is a Hong Kong resident and directly holds at least 25% of its equity, is 5%, and otherwise which is 10%, and vice versa.

The Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements 《國家稅務總局關於執行稅收協定股息條款有關問題的通知》 was enacted by the SAT on February 20, 2009. Pursuant to that, a taxpayer of the other party, who directly holds certain percentage (normally 25% or 10%) of equity interests of a PRC company, shall be entitled to the tax treatment specified in the tax agreements if all of the following requirements are satisfied: (i) such taxpayer obtaining dividends shall be a company; (ii) the equity interests and voting shares of a PRC company directly hold by such taxpayer shall reach the stipulated percentage; and (iii) the equity interests of a PRC resident enterprise directly owned by such taxpayer shall satisfy the stipulated percentage at any time during the 12 months prior to the obtainment of the dividends.

According to the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers 《非居民納稅人享受稅收協定待遇管理辦法》, which was promulgated by SAT on August 27, 2015 and became effective on November 1, 2015, the qualified non-resident taxpayers shall enjoy the convention treatment during tax declaration or during withholding declaration via withholding agents, and shall be subject to the subsequent management by tax authorities.

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Business Tax

Pursuant to the Interim Regulations of the PRC on Business Tax 《中華人民共和國營業稅暫行條例》 (the “Interim Regulations on Business Tax”), which was promulgated by the State Council on December 13, 1993 and became effective on January 1, 1994, and which was amended on November 10, 2008 and became effective on January 1, 2009, and to the Implementing Rules for the Interim Regulations of the PRC on Business Tax 《中華人民共和國營業稅暫行條例實施細則》, which was promulgated by the MOF and the SAT on December 25, 1993 and was amended on May 22, 1997, December 18, 2008, respectively, and the most recent amendment of which was on October 28, 2011, business tax is imposed on incomes derived from provision of specific service and transference of immovable property or intangible assets at a rate ranging from 3% to 20% depending on the types of services.

According to the Circular 39, the Circular 3 and the Interim Regulations on Business Tax, incomes derived from nursing services provided by nurseries or kindergartens and from education services provided by schools conducting formal education shall be exempt from business tax.

Value-Added Tax

Pursuant to the Provisional Regulations on Value Added Tax of the PRC 《中華人民共和國增值稅暫行條例》 (the “VAT Regulations”), which was promulgated by the State Council on December 13, 1993 and took effect on January 1, 1994, and was amended on November 10, 2008 and February 6, 2016 respectively, and to the Rules for the Implementation of the Provisional Regulations on Value Added Tax of the PRC 《中華人民共和國增值稅暫行條例實施細則》, which was promulgated by the MOF on December 25, 1993 and was amended on December 15, 2008 and October 28, 2011, respectively, taxpayers engaging in selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value added tax. Unless provided otherwise, the rate of the value added tax shall be 17%.

The MOF and the SAT have promulgated the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value Added Tax in Lieu of Business Tax 《關於全面推開營業稅改徵增值稅試點的通知》 on March 23, 2016, which took effect on May 1, 2016. According to that, the Value Added Tax Pilot Program has been promoted to nationwide since May 1, 2016, and the incomes derived from nursing services provided by nurseries or kindergartens and from education services provided by schools conducting formal education shall be exempted from value added tax.

Other Tax-exemption Items

Pursuant to the Circular 39 and the Circular 3, the real properties and land used by schools, nurseries and kindergartens established by enterprises shall be exempted from house property tax and urban land use tax. Cultivated land expropriated by schools upon approval shall be exempted from agrarian occupation tax. Schools or educational institutions established with non-state fiscal educational budgets upon the approval of relevant educational administrative or labor administration department, which hold the operating license and are opened to public, shall be exempted from deed tax on land or houses they owned using for educational purposes.

LAW AND REGULATIONS RELATING TO FOREIGN EXCHANGE REGISTRATION

According to the Administrative Regulations of the PRC on Foreign Exchange 《中華人民共和國外匯管理條例》, which was promulgated by the State Council on January 29, 1996, and was amended on January 14, 1997 and August 1, 2008, respectively, as for the international receipts and payments on current account, domestic or foreign institutions or individuals are permitted to reserve foreign exchange and to make payments with their own foreign exchange funds via valid documents, they can also purchase

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foreign exchange from financial institutions to make such payments, which shall be based on genuine and lawful transactions. Foreign institutions or individuals who seeks to make direct investment in the PRC shall, after approved by relevant competent department, register with the foreign exchange administrative authority. Domestic institution or individuals who seeks to engage in the issuance or trading of negotiable securities or derivatives overseas shall register with the State Council foreign exchange administrative department as required. Any such domestic institution or individual required to obtain approval from or to file with the relevant competent authority in accordance with state provisions shall go through the approval or filing procedure before making the above-mentioned registrations.

SAFE has promulgated the Circular of SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles 《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》 (the “Circular 37”) on July 4, 2014 to replace the Circular of SAFE on Relevant Issues Concerning Foreign Exchange Administration for Financing and Return Investments by Domestic Residents through Special-Purpose Overseas Companies 《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (the “Circular 75”). According to the Circular 37, domestic residents shall apply to SAFE to register foreign exchange for overseas investments before contributing money to Special Purpose Vehicles (the “SPVs”) using legitimate domestic and overseas assets or rights and interests. In the event of any alteration in the basic information, such as shareholders, name and operating duration of the individual domestic residents, or key information, such as increases or decreases in capital, or equity transfers, swaps, consolidations, or splits, the registered overseas SPVs shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus.

Pursuant to the Circular on Further Simplifying and Improving Policies for Foreign Exchange Administration for Direct Investment 《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》 (the “Circular 13”), which was promulgated by SAFE on February 13, 2015, two administrative approval items, namely, registration and verification of foreign exchange under domestic and overseas direct investment were cancelled. Banks shall, in accordance with the Circular 13 and the Operating Guidelines for Foreign Exchange Transactions for Direct Investment 《直接投資外匯業務操作指引》, directly verify and handle the registration of foreign exchange under domestic or overseas direct investment.

LAWS AND REGULATIONS RELATING TO MERGERS AND ACQUISITIONS BY FOREIGN INVESTORS

The Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》 (the “M&A Provisions”) was promulgated by MOFCOM, the State Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), SAT, SAIC, China Securities Regulatory Commission (中國證券監督管理委員會) and SAFE on August 8, 2006, became effective on September 8, 2006, and was amended on June 22, 2009. Under the M&A Provisions, the following scenarios qualify as an acquisition of domestic enterprise by foreign investor:

- a foreign investor acquires equity in a domestic non-foreign invested enterprise or subscribes the increased capital of such domestic enterprise thereby converting it into a foreign-invested enterprise;
- a foreign investor establishes a foreign-invested enterprise to purchase the assets of a domestic enterprise via agreement and to operates such assets;
- a foreign investor purchases the assets of a domestic enterprise via agreement, contributes such assets as capital to establish a foreign-invested enterprise, and continues to operate such assets.

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LAWS AND REGULATIONS RELATING TO FOREIGN-INVESTED ENTERPRISES

According to the Wholly Foreign-Owned Enterprises Law, the approval items regarding to the establishment and change of a wholly foreign-owned enterprise, which provided by Article 6, Article 10 and Article 20, shall be subjected to the record-filing administrative measures as long as the wholly foreign-owned enterprise does not involve the implementation of special access management measures prescribed by the state.

According to the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises 《外商投資企業設立及變更備案管理暫行辦法》 (the “Record-filing Interim Administrative Measures”), which was promulgated by the MOFCOM and became effective on October 8, 2016, the designated representatives or entrusted agents of a foreign-invested enterprise, which falls into the record-filing scope, in the case of the changed matters provided in the Record-filing Interim Administrative Measures, shall fill in online and submit an Application for Record-filing of the Change of Foreign-invested Enterprises (外商投資企業變更備案申報表) and the relevant documents through the comprehensive administration system within 30 days upon the occurrence of the change to initiate the record-filing procedures.

LAWS AND REGULATIONS RELATING TO REAL PROPERTY

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

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

The PRC is a signatory party to major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks and Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, the Patent Cooperation Treaty, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Agreement on Trade-Related Aspects of Intellectual Property Rights. The PRC has adopted legislations related to intellectual property rights, including copyrights, trademarks and patents.

Regulations on Copyrights

According to the Copyright Law of the PRC 《中華人民共和國著作權法》, which was promulgated by the Standing Committee of the NPC on September 7, 1990 and was amended on October 27, 2001 and February 26, 2010 respectively, and to the Implementing Regulations of the Copyright Law of the PRC 《中華人民共和國著作權法實施條例》, which was promulgated by the State Council on August 2, 2002 and was amended on January 8, 2011 and January 30, 2013 respectively, copyrights and the copyright-related rights and interests are protected under the laws and regulations.

Regulations on Trademarks

The Trademark Law of the PRC 《中華人民共和國商標法》 (the “Trademark Law”) was promulgated by the Standing Committee of the NPC in August 1982 and was amended on February 22, 1993, October 27, 2001 and August 30, 2013, respectively, and the Implementation Regulations on the Trademark Law of the PRC 《中華人民共和國商標法實施條例》 was promulgated by the State Council on August 3, 2002 and was amended on April 29, 2014. These laws and regulations provide the basic legal framework for the

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regulations of trademarks in the PRC. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective trademarks and certificate trademarks. The Trademark Office under the State Administration for Industry and Commerce is responsible for the registration and administration of trademarks throughout the country. Trademarks are granted on a term of ten years. Applicants may apply for extension twelve months prior to the expiration of the ten-year term.

Under the Trademark Law, any of the following conducts shall constitute an infringement of the exclusive right to use a registered trademark:

- using a trademark that is identical with or similar to a registered trademark on the same or similar kind of commodities without the authorization of the trademark registrant;
- selling commodities which infringe upon the exclusive right to use the registered trademark;
- counterfeiting or making, without authorization, representations of a registered trademark, or sale of such representation of a registered trademark;
- replacing the trademark and reselling the products without the consent of the registrant of the replaced trademark;
- providing conveniences to help others to infringe the exclusive rights to use the registered trademark on purpose; and
- creating other damages to others' exclusive rights to use the registered trademarks.

Violation of the Trademark Law may result in the imposition of fines, confiscation and destruction of the infringing commodities.

Regulations on Patents

Pursuant to the Patent Law of the PRC 《中華人民共和國專利法》, which was promulgated by the Standing Committee of the NPC on March 12, 1984 and was amended respectively on September 4, 1992, August 25, 2000 and December 27, 2008, with the last amendment effective on October 1, 2009, patent protection is divided into three categories, which are invention patents, utility patents and design patents. To be granted with patent right in the PRC, an invention or utility model shall be novel, creative and practical. The patent system in the PRC applies the “first to file” principle, which means when more than one individual files a patent application upon the same invention, the patent will be granted to the individual who files the application first. Invention patent is valid for twenty years from the date of application, while design patent and utility patent are valid for ten years from the date of application. Once an invention is granted the patent, unless otherwise permitted by law, no individual or entities are permitted to engage in implementing such patent without the consent of the patent holder. The dispute results from infringement of patent rights shall be settled through consultation between involved parties; the patent holder or any interested party may also seek help from legal proceedings or administrative proceedings if the dispute cannot be resolved through consultation.

Regulations on Domain Names

The Measures for the Administration of Domain Names for the Chinese Internet 《中國互聯網絡域名管理辦法》 were promulgated by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) on November 5, 2004 and became effective on December 20, 2004. Pursuant to that, the domain name registration in the PRC applies the “first to file” principle. Upon the

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completion of domain name registration, the applicant of the domain name turns into the holder of the registered domain name. The operation fees of the registered domain name shall be paid on schedule by its holder. Failure to pay such operation fees as required shall result in the cancellation of the registered domain name, which will be notified in written form by the original domain name registration service institution to the holder of the domain name.

REGULATIONS ON PRIVATE POSTSECONDARY EDUCATION IN THE STATE OF CALIFORNIA

California Private Postsecondary Education Act

The California Education Code establishes the structure of the school system in the State of California and governs the operations of both public and private educational institutions. As part of the California Education Code, on October 11, 2009, Assembly Bill 48, also known as the California Private Postsecondary Education Act of 2009 (“California Private Postsecondary Education Act”), was passed to regulate private postsecondary educational institutions in the State of California, the United States (“California”).

Approval to Operate Private Postsecondary Educational Institution

The BPPE came into existence on January 1, 2010 following the passage of the California Private Postsecondary Education Act. BPPE was created primarily to regulate private postsecondary educational institutions operating in California.

Pursuant to the California Private Postsecondary Education Act, a private postsecondary educational institution in California must seek approval to operate from the BPPE by demonstrating that the educational institution has the capacity to satisfy the minimum operating standards prescribed by the BPPE under the applicable provisions of the California Code of Regulations promulgated pursuant to the California Private Postsecondary Education Act.

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

Formal application can be made to BPPE for approval to operate a private postsecondary educational institution and the non-accredited application process consists of two stages of review: completeness review and compliance review. After submission of an application to BPPE by an educational institution together with the required documentation and fees, the bureau will review the completeness of the application within 30 days of receipt of the application. After the bureau is satisfied with the completeness of the application, the application will be put before an analyst for compliance review. During the stage of compliance review, the analyst will determine whether the institution has the capacity to satisfy the minimum operating standards. If applicable, the application will then be submitted to the Quality of Education Unit (“QEU”) to review the education programs if they are not solely approved by another licensing entity. Once the QEU has completed its review, findings of the QEU will be forwarded to the licensing analyst of the BPPE and an approval to operate may be granted by the BPPE.

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Voluntary Non-Governmental Accreditation Process

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

The Accrediting Commission of Career Schools and Colleges (“ACCSC”) is a national accrediting agency recognized by the U.S. Department of Education for its accreditation of postsecondary, non-degree-granting institutions and degree-granting institutions in the U.S. The accreditation process for ACCSC primarily involves the following progressive stages: (i) determination of eligibility, (ii) attendance of a mandatory pre-accreditation workshop organized by ACCSC, (iii) application for initial accreditation within six months after the pre-accreditation workshop, (iv) on-site evaluation to be carried out by a team of experienced professionals at ACCSC, (v) team summary report to be issued by ACCSC summarizing its observations of the school and the subsequent filing of a response by the applicant, and (vi) grant of initial accreditation in case ACCSC concluded that its accreditation standards and requirements are met by the applicant. In order to meet the eligibility criteria set by ACCSC, an applicant must be a private postsecondary institution with trade, occupational, or career-oriented educational objectives. In order to be eligible, the applicant must also have been operating for two consecutive years prior to the application for accreditation (except for regularly scheduled breaks and vacation periods), and demonstrate that it commits to operate continuously thereafter. In general, an initial accreditation status will be granted to an educational institution for a maximum of five years based on its demonstrated ability to maintain continuous compliance with ACCSC’s accrediting standards before renewal. According to ACCSC, it typically takes an applicant between 18 months and two years to complete the initial accreditation process.

The Western Association of Schools and Colleges, Senior Colleges and University Commission (“WSCUC”) is one of the regional accrediting agencies recognized by the U.S. Secretary of Education for its accreditation and pre-accreditation of senior colleges and universities in (among other regions) California. The accreditation process for the WSCUC involves three progressive stages: (i) eligibility, (ii) pre-accreditation or candidacy, and (iii) initial accreditation. An educational institution will be granted a maximum of five years of eligibility after review by the WSCUC that the educational institution meets the eligibility criteria set by WSCUC. Pre-accreditation is a preliminary affiliation with the WSCUC awarded to an educational institution that meets all or nearly all the standard at a minimum level for a maximum of five years. Initial accreditation will be awarded to an educational institution that has met the WSCUC’s standards at a substantial level for a maximum of six years before the next comprehensive review.

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY AND DEVELOPMENT

Overview

We established our first school, Shijiazhuang Lionful Technology College* (石家莊聯合技術職業學院, currently known as Shijiazhuang Institute of Technology), in July 2003 with Hebei North Education Investment Company Limited* (河北北方教育投資有限公司, currently known as Lionful Education) as its sole school sponsor, which was ultimately controlled and founded by our Controlling Shareholders, Mr. Li and Ms. Luo. Mr. Li had over 20 years of experience in the education industry and is the chairman of the Board and an executive Director. For further details of Mr. Li's biography, please see "Directors and Senior Management – Board of Directors" in this prospectus. Ms. Luo, aged 75, is the mother-in-law of Mr. Li. Ms. Luo retired from China Construction Second Engineering Bureau Ltd. (中國建築第二工程局有限公司) in 1993 and has not been involved in the daily management and operation of our Group during the Track Record Period. Ms. Luo decided not to act as a Director or hold any other position in our Group, and has expressed her intention of not acting as a Director or holding any other position in our Group because of her age and the fact that she does not have capacity to participate in the daily management or operations of our Group.

We have expanded rapidly since then and serve different students bodies ranging from preschool students in our kindergartens, to primary school, middle school and high school students in our tutorial centers, to junior college and continuing education students in our college in Hebei Province as of the Latest Practicable Date.

Business Milestones

The following table illustrates our major business milestones:

Year	Event
2003	The People's Government of Hebei Province granted approval for the establishment of Shijiazhuang Lionful Technology College* (石家莊聯合技術職業學院) and the first group of students were enrolled in October 2003
2008	The name of Shijiazhuang Lionful Technology College* (石家莊聯合技術職業學院) was changed to Shijiazhuang Institute of Technology in order to highlight its main majors of science and engineering
2010	We acquired the school sponsor interest in Chang'an Tutorial School, our first tutorial school, and commenced our private tutorial education business
2011	- Blue Crystal Kindergarten, the first kindergarten of our preschool education chain, began operation, and our preschool education business commenced - Beiguo Campus, the first campus of Chang'an Tutorial School, began operation, and our tutorial business commenced
2012	We established Zhengding Kindergarten and Fukang Kindergarten to provide preschool education services and acquired the school sponsor interests in Zhicheng Tutorial School to provide tutoring services
2013	We established Qinghui Kindergarten and Tianshan Kindergarten to provide preschool education services

HISTORY AND CORPORATE STRUCTURE

Year	Event
2014	We established Jianhua Kindergarten to provide preschool education services
2015	We established Fumenli Kindergarten and Lidu Kindergarten to provide preschool education services
2016	- Shijiazhuang Institute of Technology established the College for General Education* (通識教育學院) to provide secondary vocational education programs - Shijiazhuang Institute of Technology established Guoshi North China Industrial Robot Training Center* (國石華北工業機器人實訓中心) with Hebei Guoshi Jieneng Technology Co., Ltd.* (河北國石節能科技有限公司) to provide training related to modern industrial robots, such as design, operation, maintenance and repair, installment, etc - We established Donggang Tutorial School, Huixuan Tutorial School and High-tech Zone Tutorial School to provide tutoring services
2017	- Shijiazhuang Institute of Technology was awarded as one of the excellent private schools for the year 2016 by the Education Department of Hebei Province (河北省教育廳) - We established a representative office in Beijing to explore industry conditions and education resources in Beijing in order to facilitate our further development

HISTORY OF OUR SCHOOLS AND SCHOOL SPONSORS

Set out below are the details of our schools and their respective school sponsors.

1. Shijiazhuang Institute of Technology

Shijiazhuang Institute of Technology was established in July 2003 as a junior college with a capital of RMB5,000,000. The school sponsor's interest in Shijiazhuang Institute of Technology was wholly-owned by Lionful Education at the time of its establishment.

For details of the change of the school sponsor of Shijiazhuang Institute of Technology during the process of Corporate Reorganization, please see “– Corporate Reorganization – 1. Reorganization of the Onshore Companies – (d) Establishment of Zerui Education, transfer of equity interests in Hebei Saintach and Shijiazhuang Saintach, and change of school sponsor of Shijiazhuang Institute of Technology” in this section.

As of the Latest Practicable Date, the school sponsor's interest in Shijiazhuang Institute of Technology was registered under the name of and wholly-owned by Zerui Education.

HISTORY AND CORPORATE STRUCTURE

2. Our kindergartens

(a) *Blue Crystal Kindergarten*

Blue Crystal Kindergarten was established on January 4, 2011 with a capital of RMB900,000. The school sponsor's interest in Blue Crystal Kindergarten was registered under the name of and wholly-owned by Hebei Saintach since its establishment and up to the Latest Practicable Date.

(b) *Zhengding Kindergarten*

Zhengding Kindergarten was established on September 28, 2012 with a capital of RMB500,000. The school sponsor's interest in Zhengding Kindergarten was registered under the name of and wholly-owned by Hebei Saintach since its establishment and up to the Latest Practicable Date.

(c) *Fukang Kindergarten*

Fukang Kindergarten was established on October 12, 2012 with a capital of RMB500,000. The school sponsor's interest in Fukang Kindergarten was wholly-owned by Hebei Saintach since its establishment and up to the Latest Practicable Date.

(d) *Qinghui Kindergarten*

Qinghui Kindergarten was established on March 29, 2013 with a capital of RMB500,000. The school sponsor's interest in Qinghui Kindergarten was wholly-owned by Hebei Saintach since its establishment and up to the Latest Practicable Date.

(e) *Tianshan Kindergarten*

Tianshan Kindergarten was established on May 20, 2013 with a capital of RMB500,000. The school sponsor's interest in Tianshan Kindergarten was wholly-owned by Hebei Saintach since its establishment and up to the Latest Practicable Date.

(f) *Jianhua Kindergarten*

Jianhua Kindergarten was established on March 7, 2014 with a capital of RMB100,000. The school sponsor's interest in Jianhua Kindergarten was wholly-owned by Hebei Saintach since its establishment and up to the Latest Practicable Date.

(g) *Fumenli Kindergarten*

Fumenli Kindergarten was established on April 29, 2015 with a capital of RMB500,000. The school sponsor's interest in Fumenli Kindergarten was wholly-owned by Hebei Saintach since its establishment and up to the Latest Practicable Date.

(h) *Lidu Kindergarten*

Lidu Kindergarten was established on June 29, 2015 with a capital of RMB500,000. The school sponsor's interest in Lidu Kindergarten was wholly-owned by Hebei Saintach since its establishment and up to the Latest Practicable Date.

3. Our tutorial schools

(a) *Zhicheng Tutorial School*

Zhicheng Tutorial School was established by Ms. Geng Linghong, an Independent Third Party, on February 26, 2009 with a capital of RMB50,000. On January 16, 2012, Mr. Geng Renxian (an Independent Third Party and authorized by Ms. Geng Linghong) and Shijiazhuang Saintach entered into a school sponsor's interest transfer agreement, pursuant to which, Mr. Geng Renxian agreed to transfer the 100% school sponsors' interest in Zhicheng Tutorial School at a consideration of RMB80,000, which was determined after arm's length negotiations between the parties. Such consideration was fully settled by December 31, 2012. Subsequently and upon approval from relevant government authorities, the registration of school sponsor was changed from Ms. Geng Linghong to Shijiazhuang Saintach and the capital was increased from RMB50,000 to RMB1,000,000, contributed by Shijiazhuang Saintach. As of the Latest Practicable Date, the school sponsor's interest in Zhicheng Tutorial School was registered under the name of and wholly-owned by Shijiazhuang Saintach.

(b) *Chang'an Tutorial School*

Chang'an Tutorial School was established by Mr. Jin Liqiang, an Independent Third Party, on April 20, 2010 with a capital of RMB200,000. On September 30, 2010, Mr. Jin Liqiang and Hebei Saintach entered into a school sponsor's interest transfer agreement, pursuant to which Mr. Jin Liqiang agreed to transfer the 100% school sponsors' interest in Chang'an Tutorial School at a consideration of RMB200,000 which was determined after arm's length negotiation between the parties. The consideration was fully paid by February 25, 2011. Upon approval from relevant government authorities in November 2010, the school sponsor's interest in Chang'an Tutorial School was wholly-owned by Hebei Saintach. With the view to enhancing the centralized management of our tutorial schools by Shijiazhuang Saintach, subsequently and upon approvals from the relevant government authorities on October 21, 2013, the registered school sponsors of Chang'an Tutorial School was changed from Hebei Saintach to Shijiazhuang Saintach. As of the Latest Practicable Date, the school sponsor's interest in Chang'an Tutorial School was registered under the name of and wholly-owned by Shijiazhuang Saintach.

(c) *Qiaoxi Tutorial School*

Qiaoxi Tutorial School was established by Mr. Zhang Zenglin, our employee at the material time, on behalf of Mr. Li and Ms. Luo as to 89% and 11% school sponsor's interest pursuant to an entrustment agreement dated February 23, 2013 with a capital of RMB200,000. Such entrustment arrangement was made due to the reasons that the relevant competent government authorities, in charge of the school sponsor registration, only allowed registration of the school sponsor of Qiaoxi Tutorial School by individual instead of a legal entity. Mr. Zhang Zenglin was a then key management of the Group responsible for the operation of our tutorial schools and the registration of the school sponsor under the name of Mr. Zhang Zenglin would facilitate the management at the material time.

For further details of the change of registered school sponsor of Qiaoxi Tutorial School during the process of Corporate Reorganization, please see “– Corporate Reorganization – 1. Reorganization of the Onshore Companies – (b) Change of registered school sponsor of Qiaoxi Tutorial School” in this section.

Upon execution of the Structured Contracts on October 17, 2017, the school sponsor's interest in Qiaoxi Tutorial School was wholly-owned by Mr. Li.

HISTORY AND CORPORATE STRUCTURE

(d) Donggang Tutorial School

Donggang Tutorial School was established on February 1, 2016 with a capital of RMB1,000,000. The school sponsor's interest in Donggang Tutorial School was registered under the name of and wholly-owned by Shijiazhuang Saintach since its establishment and up to the Latest Practicable Date.

(e) Huixuan Tutorial School

Huixuan Tutorial School was established on August 3, 2016 with a capital of RMB300,000. The school sponsor's interest in Huixuan Tutorial School was wholly-owned by Shijiazhuang Saintach since its establishment and up to the Latest Practicable Date.

(f) High-tech Zone Tutorial School

High-tech Zone Tutorial School was established on December 19, 2016 with a capital of RMB500,000. The school sponsor's interest in High-tech Zone Tutorial School was wholly-owned by Shijiazhuang Saintach since its establishment and up to the Latest Practicable Date.

4. Zerui Education

Zerui Education was established on July 12, 2017. On October 10, 2017, Zerui Education replaced Lionful Education as the sole school sponsor of Shijiazhuang Institute of Technology after the Corporate Reorganization.

For details of its establishment, please see “– Corporate Reorganization – 1. Reorganization of the Onshore Companies – (d) Establishment of Zerui Education, transfer of equity interests in Hebei Saintach and Shijiazhuang Saintach, and change of school sponsor of Shijiazhuang Institute of Technology” in this section.

5. Hebei Saintach

As of the Latest Practicable Date, Hebei Saintach was the sole school sponsor of each of the Saintach Kindergartens.

Hebei Saintach was established by Ms. Luo and Mr. Li as a limited liability company on September 17, 2002 with a registered capital of RMB6,000,000, which was owned as to 80% by Ms. Luo and 20% by Mr. Li. In need of its on-going development, Hebei Saintach underwent a series of capital and name changes and equity transfers after its establishment.

For details of the conversion into limited liability company, decrease in registered share capital and equity transfers in Hebei Saintach during the process of the Corporate Reorganization, please see “– Corporate Reorganization – 1. Reorganization of the Onshore Companies – (a) Conversion into limited liability company, decrease in registered share capital and equity transfer of Hebei Saintach” and “– (d) Establishment of Zerui Education, transfer of equity interests in Hebei Saintach and Shijiazhuang Saintach, and change of school sponsor of Shijiazhuang Institute of Technology” in this section.

As of the Latest Practicable Date, the equity interest in Hebei Saintach was owned by Mr. Li and Zerui Education as to 36% and 64%, respectively.

6. Shijiazhuang Saintach

As of the Latest Practicable Date, Shijiazhuang Saintach was the sole school sponsor of each of the Saintach Tutorial Schools (excluding Qiaoxi Tutorial School, the sole school sponsor of which was Mr. Li).

Shijiazhuang Saintach was established by Beijing Saintach as a limited liability company in the PRC on July 13, 2011 with a registered capital of RMB3,000,000. Beijing Saintach was ultimately owned by Mr. Li and Ms. Luo during its term of business from April 8, 2011 to November 9, 2016.

In order to facilitate the daily management of Shijiazhuang Saintach, on December 24, 2015, Beijing Saintach and Mr. Li Hui (李輝) (as the deputy general manager of Shijiazhuang Saintach at the material time), entered into an equity transfer agreement, pursuant to which Beijing Saintach transferred the 100% equity interests in Shijiazhuang Saintach to Mr. Li Hui at a consideration of RMB3,000,000, which was determined with reference to the contribution made by Beijing Saintach to the registered capital of Shijiazhuang Saintach. Upon completion of the said transfer, Shijiazhuang Saintach became wholly-owned by Mr. Li Hui on behalf of Beijing Saintach pursuant to an entrustment agreement dated December 25, 2015. As Mr. Li Hui was to hold the equity interest in Shijiazhuang Saintach on behalf of Beijing Saintach the consideration for the said transfer was not paid by Mr. Li Hui to Beijing Saintach.

In order to centralize management by Lionful Education, the then holding company of our PRC Operating Entities at material time, on July 15, 2016, an equity transfer agreement was entered into between Mr. Li Hui and Lionful Education, an entity designated by Beijing Saintach. Pursuant to the equity transfer agreement, the 100% equity interests in Shijiazhuang Saintach held by Mr. Li Hui on behalf of Beijing Saintach was transferred to Lionful Education at a consideration of RMB3,000,000, which was determined with reference to the registered capital of Shijiazhuang Saintach. Upon completion of the said transfer, Shijiazhuang Saintach became wholly-owned by Lionful Education.

For details of the change of equity interest in Shijiazhuang Saintach during the process of the Corporate Reorganization, please see “– Corporate Reorganization – 1. Reorganization of the Onshore Companies – (d) Establishment of Zerui Education, transfer of equity interests in Hebei Saintach and Shijiazhuang Saintach, and change of school sponsor of Shijiazhuang Institute of Technology” in this section.

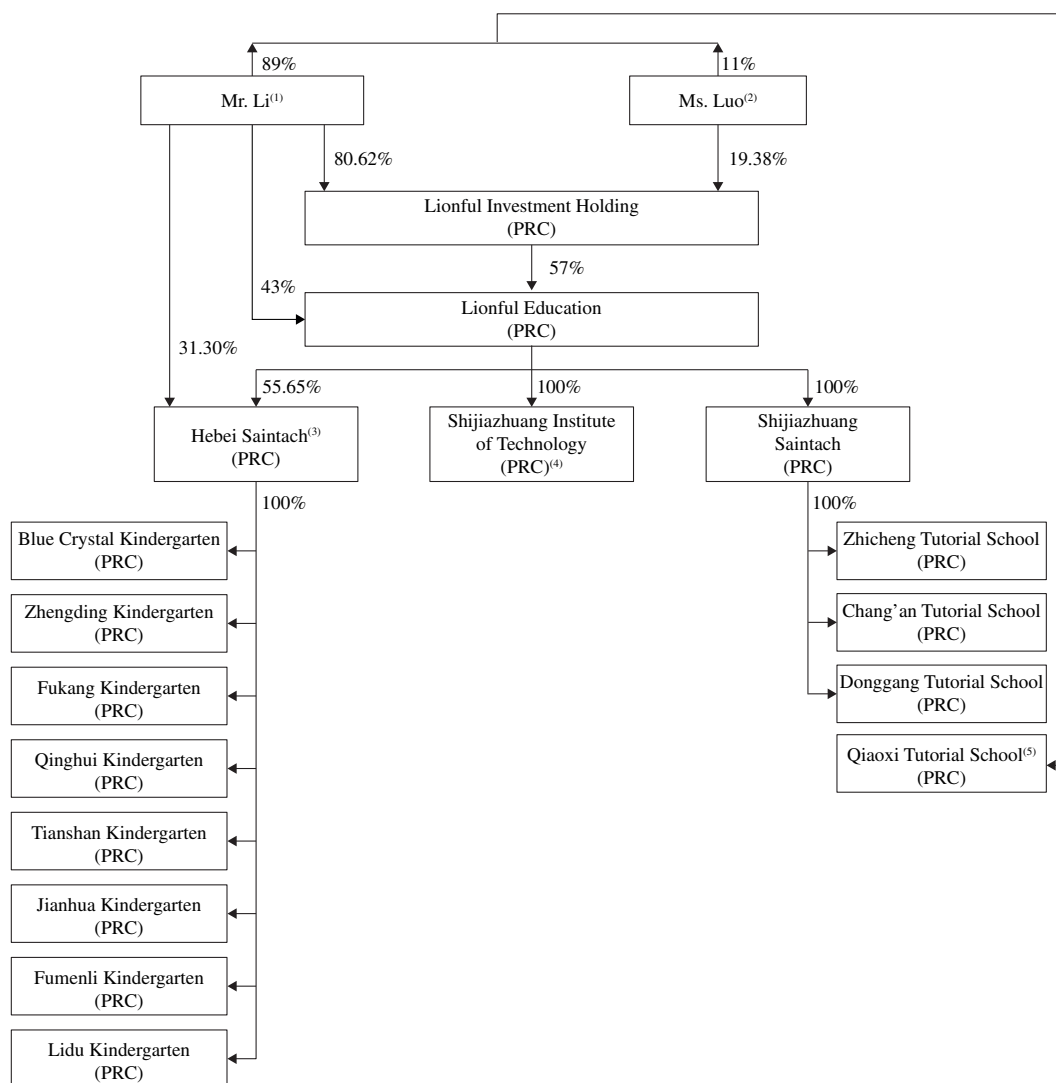
As of the Latest Practicable Date, the equity interest in Shijiazhuang Saintach was wholly-owned by Zerui Education.

As advised by our PRC Legal Advisor, the aforementioned school sponsor’s interest transfers and equity transfers were properly and legally completed, and the entrustment agreements are legal and valid under PRC laws.

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE BEFORE THE CORPORATE REORGANIZATION

Set out below is the shareholding structure of our Group immediately prior to the Corporate Reorganization:



Notes:

- (1) Mr. Li is the son-in-law of Ms. Luo.
- (2) Ms. Luo is the mother-in-law of Mr. Li and has been acting in concert with Mr. Li in connection with their interests in our Group since April 2005.
- (3) The remaining 13.05% equity interest in Hebei Saintach was owned by other seven individuals, including four employees of our Group at the material time, namely Ms. Wang Lijing, Mr. Liu Zhanjie, Mr. Liu Jianting and Mr. Zhang Yongbin and three individual Independent Third Parties, namely Ms. Wang Jing, Mr. Zhang Huchen and Ms. Feng Aihua, respectively.
- (4) Infirmary of Shijiazhuang Institute of Technology is located within Shijiazhuang Institute of Technology and its approved medical services are limited to teachers, students and staff of Shijiazhuang Institute of Technology and therefore ancillary to the operation of the Shijiazhuang Institute of Technology. Infirmary of Shijiazhuang Institute of Technology was established on August 24, 2012 with a capital of RMB250,000 and wholly-owned by Shijiazhuang Institute of Technology since its establishment and up to the Latest Practicable Date.
- (5) Immediately prior to the Corporate Reorganization, the school sponsor's interest in Qiaoxi Tutorial School was registered under the name of Mr. Zhang Zenglin, as a registered holder, on behalf of Mr. Li and Ms. Luo as to 89% and 11%, respectively.

HISTORY AND CORPORATE STRUCTURE

CORPORATE REORGANIZATION

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

1. Reorganization of the Onshore Companies

(a) Conversion into limited liability company, decrease in registered share capital and equity transfer of Hebei Saintach

As resolved by the shareholders' meeting of Hebei Saintach on September 6, 2016 and approved by the competent government authorities on September 23, 2016, Hebei Saintach was converted from a joint stock company into a limited liability company. Upon the completion of the conversion, Hebei Saintach was owned by Lionful Education as to 55.65%, Mr. Li as to 31.3%, and other seven individuals as to 13.05%, including four employees of our Group at the material time, namely Ms. Wang Lijing, Mr. Liu Zhanjie, Mr. Liu Jianting and Mr. Zhang Yongbin, and three individual Independent Third Parties, namely Ms. Wang Jing, Mr. Zhang Huchen and Ms. Feng Aihua, respectively.

On October 31, 2016, as resolved by the shareholders' meeting of Hebei Saintach and approved by the competent government authorities, the registered capital of Hebei Saintach was decreased from RMB11,500,000 to RMB10,000,000. Upon the completion of the decrease in the registered capital, the shareholding structure of Hebei Saintach remained unchanged.

On October 31, 2016, Lionful Education entered into equity transfer agreements with several then shareholders of Hebei Saintach, including three employees of our Group at material time, namely Ms. Wang Lijing, Mr. Liu Zhanjie and Mr. Liu Jianting, and two individual Independent Third Parties, namely Ms. Wang Jing and Ms. Feng Aihua, respectively. Pursuant to the equity transfer agreements, Ms. Wang Lijing, Mr. Liu Zhanjie, Mr. Liu Jianting, Ms. Wang Jing and Ms. Feng Aihua transferred their aggregate 8.35% equity interests in Hebei Saintach to Lionful Education for a total consideration of RMB835,000, which was determined with reference to the contribution made by them to the registered capital of Hebei Saintach. Such consideration was fully-paid on the same date of the equity transfer agreement. On October 31, 2016, Mr. Li entered into equity transfer agreements with three then shareholders of Hebei Saintach, namely Ms. Wang Lijing, Mr. Zhang Huchen and Mr. Zhang Yongbin. Pursuant to the equity transfer agreements, Ms. Wang Lijing, Mr. Zhang Huchen and Mr. Zhang Yongbin transferred their aggregate 4.7% equity interests in Hebei Saintach to Mr. Li for a total consideration of RMB470,000, which was determined with reference to the contribution made by them to the registered capital of Hebei Saintach. Such consideration was fully-paid on the same date of the equity transfer agreement. Upon the completion of such transfers, Hebei Saintach was owned as to 64% by Lionful Education and 36% by Mr. Li.

(b) Change of registered school sponsor of Qiaoxi Tutorial School

On November 15, 2016, the entrustment arrangement among Mr. Zhang Zenglin, Mr. Li and Ms. Luo was terminated and the 100% school sponsors' interests in Qiaoxi Tutorial School was transferred from Mr. Zhang Zenglin to Mr. Li for nil consideration pursuant to a school sponsor's interest transfer agreement entered into between Mr. Zhang Zenglin and Mr. Li. Upon approvals from the relevant government authorities on November 15, 2016, Qiaoxi Tutorial School was wholly-owned by Mr. Li for himself as to 89% and on behalf of Ms. Luo as to 11% pursuant to an entrustment agreement dated November 10, 2016, which was terminated upon execution of the Structured Contracts. Accordingly, upon execution of the Structured Contracts on October 17, 2017, the school sponsor's interest in Qiaoxi Tutorial School was wholly-owned by Mr. Li.

(c) Establishment of WFOE in the PRC

On December 14, 2016, Sheng Dao Xiang Cheng, the WFOE, was established in the PRC as a wholly-foreign owned enterprise with a registered capital of US\$500,000, which was wholly-owned by 21st Century Education (HK) as of the Latest Practicable Date.

HISTORY AND CORPORATE STRUCTURE

As of the Latest Practicable Date, Sheng Dao Xiang Cheng was principally engaged in the provision of technical and management consultancy services to our PRC Operating Entities.

(d) Establishment of Zerui Education, transfer of equity interests in Hebei Saintach and Shijiazhuang Saintach, and change of school sponsor of Shijiazhuang Institute of Technology

As Lionful Education holds equity interests in other companies which are engaged in businesses other than education, including real estate development, financing and investment, etc., and unable to be disposed of before Listing, Zerui Education was established to replace Lionful Education as the school sponsor of Shijiazhuang Institute of Technology and the shareholder of each of Hebei Saintach and Shijiazhuang Saintach. Please see “Relationship with Controlling Shareholders – Independence from our Controlling Shareholders” in this prospectus for further details.

Zerui Education was established and commenced business on July 12, 2017 with a registered capital of RMB40,000,000. Zerui Education has been owned as to 80.625% by Mr. Li and 19.375% by Ms. Luo since its establishment and as of the Latest Practicable Date.

On July 17, 2017, the 64% equity interests in Hebei Saintach held by Lionful Education was transferred to Zerui Education at a consideration of RMB6,400,000 pursuant to an equity transfer agreement entered into between Lionful Education and Zerui Education. Such consideration was determined with reference to the contribution made by Lionful Education to the registered capital of Hebei Saintach and fully paid by Zerui Education to Lionful Education by August 25, 2017. Upon approval from relevant competent authorities on July 19, 2017 and as of the Latest Practicable Date, Hebei Saintach was owned by Zerui Education and Mr. Li as to 64% and 36%, respectively.

On July 18, 2017, the 100% equity interests in Shijiazhuang Saintach held by Lionful Education was transferred to Zerui Education at a consideration of RMB3,000,000 pursuant to an equity transfer agreement entered into between Lionful Education and Zerui Education. Such consideration was determined with reference to the contribution made by Lionful Education to the registered capital of Shijiazhuang Saintach and fully paid by Zerui Education to Lionful Education by August 25, 2017. Upon approval from relevant competent authorities on July 18, 2017 and as of the Latest Practicable Date, Shijiazhuang Saintach became wholly-owned by Zerui Education.

On August 24, 2017, the 100% school sponsor’s interest in Shijiazhuang Institute of Technology was transferred from Lionful Education to Zerui Education at a consideration of RMB5,000,000, pursuant to a school sponsor’s interest transfer agreement entered into between Lionful Education and Zerui Education. Such consideration was determined with reference to the capital of Shijiazhuang Institute of Technology and was fully paid by Zerui Education to Lionful Education by August 25, 2017. Upon approvals from the relevant government authorities on October 10, 2017 and as of the Latest Practicable Date, the school sponsor’s interest in Shijiazhuang Institute of Technology was wholly owned by Zerui Education.

As advised by our PRC Legal Advisor, the aforementioned school sponsor’s interest transfers and equity transfers were properly and legally completed, and the aforementioned entrustment agreements are legal and valid under the PRC laws.

HISTORY AND CORPORATE STRUCTURE

2. Incorporation of the Offshore Group Companies

(a) *Our Company*

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on September 20, 2016 with an authorized share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each. On the same day, one fully-paid Share was issued to Sharon Pierson and was further transferred to Sainange Holdings. On the same day, additional 8,895 and 1,104 Shares were allotted and issued to Sainange Holdings and Sainray Limited, respectively, credited as fully paid. Since then, our Company has been held by Sainange Holdings and Sainray Limited as to 88.96% and 11.04%, respectively. Since their respective incorporation date and as of the Latest Practicable Date, Sainange Holdings was wholly-owned by Mr. Li and Sainray Limited was wholly-owned by Ms. Luo.

(b) *Sainange Investment*

Sainange Investment was incorporated as a limited liability company, for investment holding purposes, under the laws of the BVI on October 19, 2016 and authorized to issue a maximum of 50,000 shares of US\$1.00 each. On the same day, 100 shares of Sainange Investment were allotted and issued to our Company, credited as fully paid. Since then, Sainange Investment has been wholly-owned by our Company.

(c) *21st Century Education (HK)*

21st Century Education (HK) was incorporated as a limited liability company under the laws of Hong Kong on November 1, 2016 with 10,000 shares allotted and issued to Sainange Investment, credited as fully-paid. Since then, 21st Century Education (HK) has been wholly-owned by Sainange Investment.

(d) *Saintach Education (HK)*

Saintach Education (HK) was incorporated as a limited liability company under the laws of Hong Kong on November 3, 2016 with 10,000 shares allotted and issued to Sainange Investment, credited as fully-paid. Since then, Saintach Education (HK) has been wholly-owned by Sainange Investment.

3. Entering into the Structured Contracts to control our schools

On October 17, 2017, the WFOE entered into various agreements with/among our PRC Operating Entities that constitute the Structured Contracts, pursuant to which, all economic benefits arising from the business and operation of our PRC Operating Entities are transferred to the WFOE by means of services and consultation fees payable by our PRC Operating Entities to the WFOE. For further details of the Structured Contracts, please see “Structured Contracts” in this prospectus.

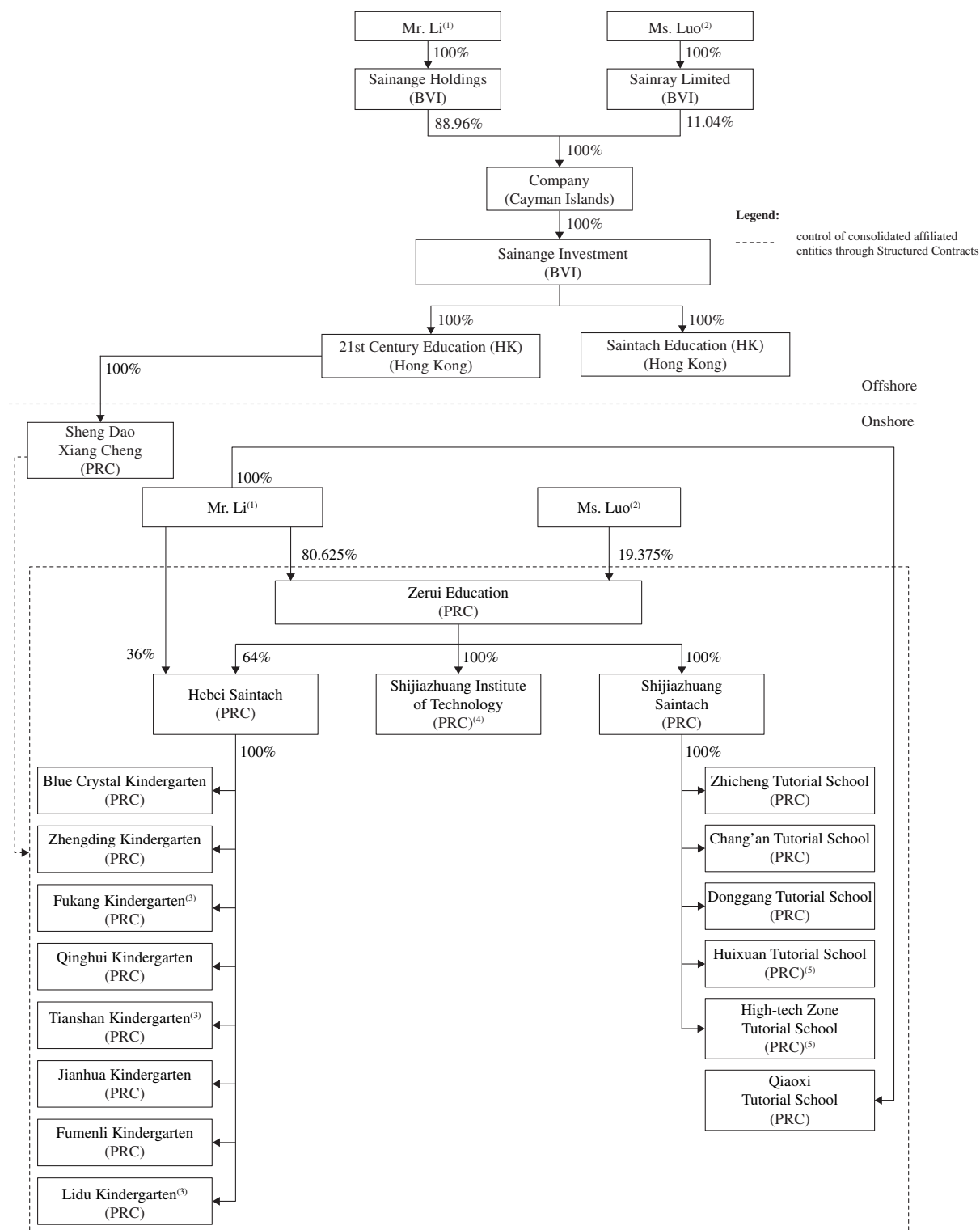
PRC LEGAL AND COMPLIANCE

Our PRC Legal Advisor confirmed that, save for that the registration of pledge under the Equity Pledge Agreements with the relevant Bureau of Administration of Industry and Commerce is being processed, all necessary approvals, permits and licenses required under the PRC laws and regulations in connection with the Corporate Reorganization have been obtained, and the Corporate Reorganization has complied with all applicable PRC laws and regulations.

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE IMMEDIATELY AFTER THE CORPORATE REORGANIZATION

The following chart sets forth our corporate structure immediately after the Corporate Reorganization and as of the Latest Practicable Date:



HISTORY AND CORPORATE STRUCTURE

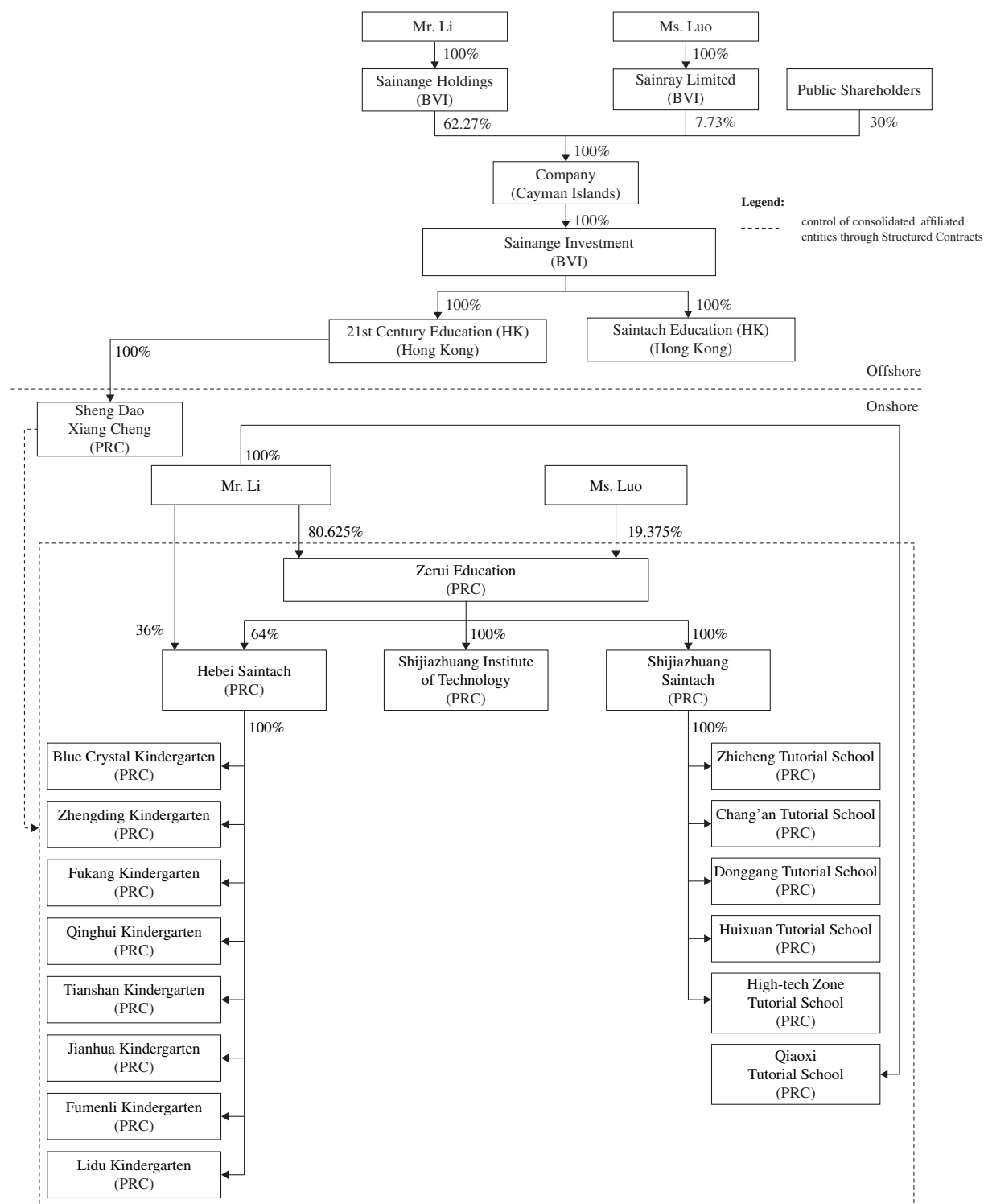
Notes:

- (1) Mr. Li is the son-in-law of Ms. Luo.
- (2) Ms. Luo is the mother-in-law of Mr. Li and has been acting in concert with Mr. Li in connection with their interests in our Group since April 2005.
- (3) As confirmed by our Company, the relevant competent government authorities, in charge of the school sponsor registration, only allowed registration of the school sponsors on the education operation licenses of each of Fukang Kindergarten, Tianshan Kindergarten and Lidu Kindergarten using the names of individuals instead of legal entities. Therefore, the registered school sponsors of each of such kindergartens was Mr. Li. As advised by our PRC Legal Advisor, the school sponsor's interest in each of Fukang Kindergarten, Tianshan Kindergarten and Lidu Kindergarten was actually wholly owned by Hebei Saintach based on the above confirmation from our Company and the reasons that the respective articles of associations, which state Hebei Saintach as school sponsor, of such kindergartens have been approved by the competent education and civil administrative authorities, and the capital of such kindergartens have been fully paid by Hebei Saintach.
- (4) Infirmary of Shijiazhuang Institute of Technology was wholly-owned by Shijiazhuang Institute of Technology.
- (5) Huixuan Tutorial School and High-tech Zone Tutorial School were established on August 3, 2016 and December 19, 2016, respectively.

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE UPON LISTING

The following chart sets forth our corporate structure upon Listing (assuming the Over-allotment Option or any option(s) that may be granted under the Share Option Scheme is not exercised):



HISTORY AND CORPORATE STRUCTURE

Note:

- (1) For background information about certain individuals and companies shown in the above shareholding structure chart, see the corresponding notes of the chart in “– Group Structure Immediately after the Corporate Reorganization” in this section.

SAFE REGISTRATION

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular No. 37”), promulgated by SAFE and which became effective on July 14, 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division.

Pursuant to the Circular of SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “SAFE Circular No. 13”), promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisor, each of Mr. Li and Ms. Luo has completed the registration as requested by the SAFE Circular No. 37.

STRUCTURED CONTRACTS

BACKGROUND OF THE STRUCTURED CONTRACTS

We currently conduct our private education business through our PRC Operating Entities in the PRC where PRC laws, regulations and regulatory practice generally restricts the operation of higher, preschool, academic non-credential and secondary vocational education to Sino-foreign ownership with qualification requirements imposed on the foreign owners. The academic non-credential education provided by us includes individualized or small group tutoring for primary, middle and high school students, given that these tutoring services are conducted as a supplement to school education and the tutorial schools do not grant diplomas or degrees to its students. We do not hold any equity interest or school sponsors' interests in our PRC Operating Entities. The Structured Contracts, through which we obtain control over and derive economic benefits from our PRC Operating Entities, have been narrowly tailored to achieve our business purpose and minimize the potential conflict with relevant PRC laws and regulations.

Preschool and Higher Education, Academic Non-credential and Secondary Vocational Education

Pursuant to the Foreign Investment Catalogue, the provision of preschool and higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalogue explicitly restricts the participation of foreign-invested entities in preschool and higher education to Sino-foreign cooperation, which means that foreign investors may only operate educational institutions offering preschool and higher education through joint ventures with PRC incorporated entities that are in compliance with the Sino-foreign Regulations. In addition, the Foreign Investment Catalogue also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or chief executive officer of the schools shall be a PRC national, and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "Foreign Control Restriction").

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Regulation on Sino-foreign Cooperation in Operating Schools of the PRC 《中華人民共和國中外合作辦學條例》 (the "Sino-Foreign Regulations(s)"), if our Company was to apply for any of the schools for PRC students that is operated by our Group to be reorganized as a Sino-foreign joint venture private school ("Sino-Foreign Joint Venture Private School"), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and high quality of education (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund's Entry into the Education Sector and Promoting Healthy Development of Private Education 《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》 promulgated by the MOE on June 18, 2012 ("Implementation Opinions"), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "Foreign Ownership Restriction"). As advised by our PRC Legal Advisor, the establishment of a Sino-Foreign Joint Venture Private School offering preschool education is subject to the approval of education authorities at the provincial level, and the establishment of a Sino-Foreign Joint Venture Private School offering junior college education is subject to the approval of education authorities and government at the provincial level and the establishment of a Sino-Foreign Joint Venture Private School offering undergraduate education or above is subject to the approval of education authorities at the national level.

As advised by our PRC Legal Advisor, although pursuant to the Sino-Foreign Regulations, the establishment and operation of Sino-foreign joint venture schools offering academic non-credential and/or secondary vocational education is subject to the approval of education authorities at the provincial level, the Foreign Investment Catalogue does not explicitly restrict the participation of foreign-invested entities in schools offering academic non-credential and/or secondary vocational education to Sino-foreign cooperation. Therefore, there is certain uncertainty in practice as to (i) whether schools established and operated by foreign investors offering academic non-credential and/or secondary vocational education must comply with the Sino-Foreign Regulations and its implementation measures and whether such schools must operate through Sino-Foreign Joint Venture Private Schools; and (ii) what specific criteria must be met by a foreign investor (such as the number of years of experience and the form and extent of ownership of the relevant foreign educational institution in the foreign jurisdiction) in order to demonstrate to the relevant education authorities that it meets the Qualification Requirement.

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Accordingly, on June 30, 2017, with the assistance of our PRC Legal Advisor, our Company consulted the Education Department of Hebei Province (河北省教育廳), being the competent authority in Hebei Province as advised by our PRC Legal Advisor to provide such confirmation in respect of the matters relating to the Sino-Foreign Joint Venture Private Schools of our Company.

Our Company was advised by an officer of the International Cooperation and Communication Office* (國際合作和交流處) at the Education Department of Hebei Province (河北省教育廳), among other things, that:

- (i) foreign investors operating schools in the PRC (which in the case of our Company, includes schools offering academic non-credential and secondary vocational education, preschool and higher education) as school sponsors must comply with the Sino-Foreign Regulations and its implementation measures and must operate such schools through joint ventures with PRC incorporated entities;
- (ii) the Foreign Ownership Restriction and the Qualification Requirement applied to Sino-Foreign Joint Venture Private Schools in Hebei Province;
- (iii) a foreign investor in a Sino-Foreign Joint Venture Private School should be an officially recognized educational institution which was authorized to issue diplomas, which had advanced education capacity and special school-running characteristics and which generally possessed certain advantages over PRC-invested educational institutions;
- (iv) as a matter of practice, no Sino-Foreign Joint Venture Private Schools had been approved in Hebei Province after the Sino-Foreign Regulations came into effect on September 1, 2003 and no change to such policy was expected in the coming year. Further, no applications for Sino-Foreign Joint Venture Private Schools had been received by the Education Department of Hebei Province (河北省教育廳) recently;
- (v) no implementation measures or specific guidance pursuant to the Sino-Foreign Regulations had been promulgated in Hebei Province; and
- (vi) the execution of the Structured Contracts, including the payment of service fees thereunder, would not require approval from or filing at the relevant education authorities. The existing Structured Contracts were not required to be terminated and would not affect the holding or renewal of the permissions and licenses that had already been obtained.

Moreover, during the interview both we and the officer with whom we spoke referred to our tutoring services as “non-credential education,” illustrating the appropriateness of this classification.

Our PRC Legal Advisor is of the view that the Education Department of Hebei Province and the officer interviewed from the International Cooperation and Communication Office (國際合作和交流處) are competent authorities to provide the relevant confirmations based on the following:

- Pursuant to the Notice of the Office of People’s Government of Hebei Province on the General Catalogue for Administrative Licensing Matter in Hebei Province (2016) (河北省人民政府辦公廳關於公佈河北省行政許可事項通用目錄(2016年版)的通知), the competent department for the examination and approval for the establishment, change of registration or termination for the Sino-foreign cooperative educational institution providing higher education, mid-level credential education, after-school education or preschool education is the Education Department of Hebei Province;

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- Pursuant to the Matter List for Administrative Licensing of the Education Department of Hebei Province (河北省教育廳行政許可事項清單), the International Cooperation and Communication Office at the Education Department of Hebei Province shall be the responsible institution for the examination and approval for the establishment, change of registration or termination for Sino-foreign cooperative educational institution providing higher education, mid-level credential education, after-school education or preschool education; and
- The aforesaid officer is a head of International Cooperation and Communication Office, who has good and authoritative understanding of the PRC laws and regulations regarding Sino-foreign cooperative education and its actual implementation in the Hebei Province.

As at the Latest Practicable Date, as advised by our PRC Legal Advisor, our Company does not meet the Qualification Requirement since we have no experience in operating a school outside of the PRC. In addition, based on the above advice and confirmation, it is not practicable for our Company to seek to reorganize any of our PRC Operating Entities as a Sino-Foreign Joint Venture Private School.

Notwithstanding the above, we are committed to working towards meeting the Qualification Requirement. We have adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. We have undertaken to make periodic inquiries to relevant education authorities following the Listing to keep abreast of any regulatory developments, including any change in policy for approving Sino-Foreign Joint Venture Private Schools in Hebei Province, and continually assess whether we meet the then prevailing Qualification Requirement, with a view to unwinding the Structured Contracts wholly or partially as and when it becomes practicable and permissible under the then prevailing PRC laws and regulations. Please see “– Circumstances in Which We Will Unwind the Structured Contracts” and “– Plan to Comply with the Qualification Requirement” in this section for further details.

As a result of the above regulatory restrictions, we do not hold any equity interest or school sponsor’s interest in, and rather control by way of Structured Contracts over and receive economic benefits from, our PRC Operating Entities given the PRC laws, regulations and regulatory practice currently restrict operation of academic non-credential and secondary vocational education, preschool and higher education to Sino-foreign ownership, in addition to imposing Qualification Requirements on the foreign owners.

As of the date of this prospectus, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Structured Contracts and the consolidated financial results of our PRC Operating Entities, which engage in education service, are consolidated to those of our Group. Our PRC Legal Advisor has opined that each of our PRC Operating Entities has been legally established and the Structured Contracts in relation to the operation of academic non-credential and secondary vocational education, preschool and higher education are valid, legal and binding and do not contravene the relevant laws and regulations of the PRC save as disclosed in “– Dispute Resolutions” in this section. According to our PRC Legal Advisor, under PRC laws and regulations, the failure to meet the Qualification Requirement and the adoption of the Structured Contracts to operate our schools to provide academic non-credential and secondary vocational education, preschool and higher education do not render our academic non-credential and secondary vocational education, preschool and higher education business illegal in the PRC. As disclosed above, we have obtained confirmation from the Education Department of Hebei Province (河北省教育廳) that the execution of the Structured Contracts would not require approval from or filing at the education authorities and the existing Structured Contracts were not required to be terminated and would not affect the holding or renewal of the permissions and licenses that had already been obtained.

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Preschool Franchise and School Operation Service

We also provide preschool franchise service to a franchised kindergarten and school operation service to the west campus of Sifang College. Although the “provision of preschool franchise” and “provision of school operation services” in the PRC are not included in the “restricted” or “prohibited” category pursuant to the Foreign Investment Catalogue, we consider the provision of preschool franchise and school operation services by us as indivisible from our businesses of providing preschool and higher education and shall be operated by the entities included in the Structured Contracts for the reasons below:

- (a) **Preschool Franchise Business:** Provision of preschool franchise services shall be subject to applicable laws related to commercial franchises as well as provision of preschool education. Pursuant to the Regulation on the Administration of Commercial Franchises (《商業特許經營管理條例》) promulgated by the State Council on January 31, 2007 and became effective on May 1, 2007, in order to provide preschool franchise services in the PRC, a franchiser is required to own at least two kindergartens. The only entity within our Group which satisfies such requirement is Hebei Saintach. The WFOE, as a foreign-invested entity, is not allowed to own kindergartens as the school sponsor under relevant PRC laws and thus is not qualified under the Regulation on the Administration of Commercial Franchises to conduct preschool franchise business. Based on the above, our PRC Legal Advisor is of the view that (i) the kindergarten franchise business cannot be operated by separate entities outside the Structured Contracts, and (ii) the only entity within our Group which can provide kindergarten franchise business is Hebei Saintach; and
- (b) **School Operation Services:** Based on the interview with an officer of the International Cooperation and Communication Office (國際合作和交流處) at the Education Department of Hebei Province (河北省教育廳) in December 2017, it is confirmed that: (i) the provision of school operation service in the PRC, which includes teaching and student administration, shall also be subject to the Qualification Requirement; (ii) no foreign investor or foreign directly/indirectly invested/controlled entity had been approved to conduct school operation services business in Hebei Province after the Sino-Foreign Regulations came into effect on September 1, 2003; and (iii) no approval for foreign directly/indirectly invested/controlled entities providing school operation services business will be granted in foreseeable future. Based on such interview, the WFOE is not qualified under the Qualification Requirement to provide school operation services to Sifang College. Our PRC Legal Advisor is of the view that the Education Department of Hebei Province is the competent authority, and the interviewee is the competent person to provide such confirmations.

In addition, based on the interview conducted with Sifang College in December 2017, Sifang College only allows Shijiazhuang Institute of Technology, the only entity in our Group with junior college educational experiences and qualifications, including teaching capacity, school facilities and student administration systems, to be the school operator of the west campus of Sifang College.

Based on the above, our PRC Legal Advisor is of the view that (i) the school operation services cannot be operated by separate entities outside the Structured Contracts, and (ii) the only entity within our Group which can provide school operation services is Shijiazhuang Institute of Technology.

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Circumstances in Which We Will Unwind the Structured Contracts

According to the Sino-Foreign Regulations and PRC regulatory practice, foreign investment in educational institutions providing preschool, tutorial school, secondary vocational education and higher education in Hebei Province is required to be in the form of cooperation between PRC and foreign educational institutions and is subject to the Foreign Ownership Restriction, in that foreign investors can only hold less than 50% interest in a Sino-Foreign Joint Venture Private School. In addition, foreign investment in educational institutions is subject to the Foreign Control Restriction and accordingly not less than 50% of the members of the governing body of such educational institutions must be appointed by the Chinese investors.

In the event that the Qualification Requirement is removed or our Company is able to meet the Qualification Requirement but (a) the Foreign Ownership Restriction and the Foreign Control Restriction remain, (b) the Foreign Ownership Restriction remains and the Foreign Control Restriction is removed, (c) the Foreign Ownership Restriction is removed and the Foreign Control Restriction remains, or (d) both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed, as permitted by the applicable PRC laws and regulations at the relevant time:

- in circumstance (a), our Company will partially unwind the Structured Contracts and directly hold equity interest of less than 50% in the relevant school (such as 49.99% equity interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Joint Venture Private School up to no more than 50%. However, our Company will not be able to control such school without the Structured Contracts in place with respect to the domestic interests. Accordingly, if the Foreign Ownership Restriction and the Foreign Control Restriction remain, regardless of whether the Qualification Requirement is removed or met, our Company will still rely on contractual arrangements to establish control over the schools. Our Company will also acquire rights to appoint members to the board of directors who together shall constitute less than 50% of board of directors of the relevant school. We will then control the voting power of the other members to the board of directors appointed by the domestic interest holder(s) by way of Structured Contracts;
- in circumstance (b), we will partially unwind the Structured Contracts and directly hold equity interest of less than 50% in the relevant school (such as 49.99% equity interest) as our Company or any of its subsidiaries, as a foreign investor, can only hold a portion of the total investment in a Sino-Foreign Joint Venture Private School up to no more than 50%. However, our Company will not be able to control such school without the Structured Contracts in place with respect to the domestic interests. Our Company will also acquire rights to appoint all members to the board of directors of the school;
- in circumstance (c), notwithstanding we will be able to hold majority interests in a Sino-Foreign Joint Venture Private School, the Sino-Foreign Regulation still dictates that there be a domestic interest in the relevant school and we are ineligible to operate by ourselves. Under such circumstances, we will acquire rights to appoint members to the board of directors who together shall constitute less than 50% of board of directors of the relevant school. We will then control the voting power of such members appointed by the domestic interest holder(s) by way of the Structured Contracts. We also plan to hold the maximum percentage of equity interests permissible by the relevant laws and regulations in the relevant schools directly, subject to the approval of relevant government authorities. As for the remaining minority domestic interests which our Company intends to consolidate, we will then control them pursuant to the Structured Contracts; and
- in circumstance (d), our Company would be allowed to directly hold 100% of the interests in the schools and our Company will fully unwind the Structured Contracts and directly hold all equity interest in the schools. Our Company will also acquire rights to appoint all members to the board of directors of the school.

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In the event that the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), the arrangement to unwind the Structured Contracts will be carried out so that we are able to directly operate our schools without using the Structured Contracts. Please see “– Termination of the Structured Contracts” in this section for further details. Each of the Registered Shareholders has undertaken that subject to the applicable PRC laws and regulations, he/she/it will return to us any consideration he/she/it receives in the event that we acquire the interests in our PRC Operating Entities when unwinding the Structured Contracts.

Plan to Comply with the Qualification Requirement

We have adopted a specific plan and have undertaken the following concrete steps which we reasonably believe are meaningful endeavors towards demonstrating compliance with the Qualification Requirement. We were advised by an officer of the International Cooperation and Communication Office (國際合作和交流處) at the Education Department of Hebei Province (河北省教育廳) that a foreign investor in a Sino-Foreign Joint Venture Private School should be an officially recognized educational institution which was authorized to issue diploma, which had advanced education capacity and special school-running characteristics and which generally had certain advantages over PRC-invested educational institutions.

We currently plan to establish and operate an officially recognized residential university authorized to grant master’s degrees in business administration and bachelor’s degrees in computer science in the state of California, the United States. On December 17, 2016, we entered into a consulting agreement with an international education consultant, who is an Independent Third Party with extensive experience in the sector of private post-secondary education in the state of California. The consultant has formulated a business plan regarding the establishment of an entity which we will use to operate our proposed university in the state of California, and the consultant will continue to provide assistance to initiate and implement the key elements of the plan. Pursuant to the business plan, we have established the proposed entity, named the Los Angeles Sainange Institute of Technology, on January 17, 2017. In addition, on September 28, 2017, we also engaged legal counsel in the United States for advice on matters relating to the establishment of the new university. For details of the regulatory environment in the state of California for the operation of a university, please see “Regulatory Overview – Regulations on Private Postsecondary Education in the State of California” in this prospectus. We submitted a formal application regarding the establishment of the proposed university to the BPPE on August 10, 2017, and approval process is expected to be completed within approximately 18 months from the date of application. We are in the process of searching for appropriate school premises as well as suitable management for the operation of the new university, with assistance from the consultant. We will provide funding for establishing the proposed university and we intend to allocate up to US\$4.57 million (approximately HK\$35.70 million) of the proceeds from the Global Offering for this purpose. We had incurred approximately US\$28,000 (approximately HK\$218,590) in expenses in connection with our plan as of the Latest Practicable Date. Please see “Business – Our Business Strategies – Strengthen international cooperation with overseas educational institutions and build our presence overseas” for details of the new university to be established.

Our PRC Legal Advisor is of the view that our Group’s plan to set up a university in California is appropriate to demonstrate compliance with the Qualification Requirement based on the followings:

- (a) The Implementing Measures for the Regulation of the PRC on Sino-foreign Cooperative Education (《中外合作辦學條例實施辦法》): Pursuant to such implementing measures, the Chinese and foreign cooperators applying to establish a Sino-foreign cooperative educational institution shall have corresponding schooling qualifications and relatively high educational quality; and

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- (b) Confirmation from competent authority: Based on the interview with an officer of the Education Department of Hebei Province in June 2017, it is confirmed that: (i) there is no explicit rule or guideline for interpreting such “corresponding schooling qualifications and relatively high schooling quality” and there is no relevant implementation measure or guiding opinion in Hebei Province; and (ii) an investor in a Sino-Foreign Joint Venture Private School should be an officially recognized foreign educational institution which was authorized to issue diplomas, which had advanced education capacity and special school-running characteristics and which possessed certain advantages over PRC-invested educational institutions. Our PRC Legal Advisor is of the view that the Education Department of Hebei Province is the competent authority, and the interviewee is the competent person to provide such confirmations.

In the opinion of our PRC Legal Advisor, if the Foreign Ownership Restriction and the Foreign Control Restriction are both removed but the Qualification Requirement remains, we will be able to operate our schools in the PRC directly through the new university operated by Los Angeles Sainange Institute of Technology, assuming the new university gains sufficient foreign experience to satisfy the current Qualification Requirement in Hebei Province and obtains approval from the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School.

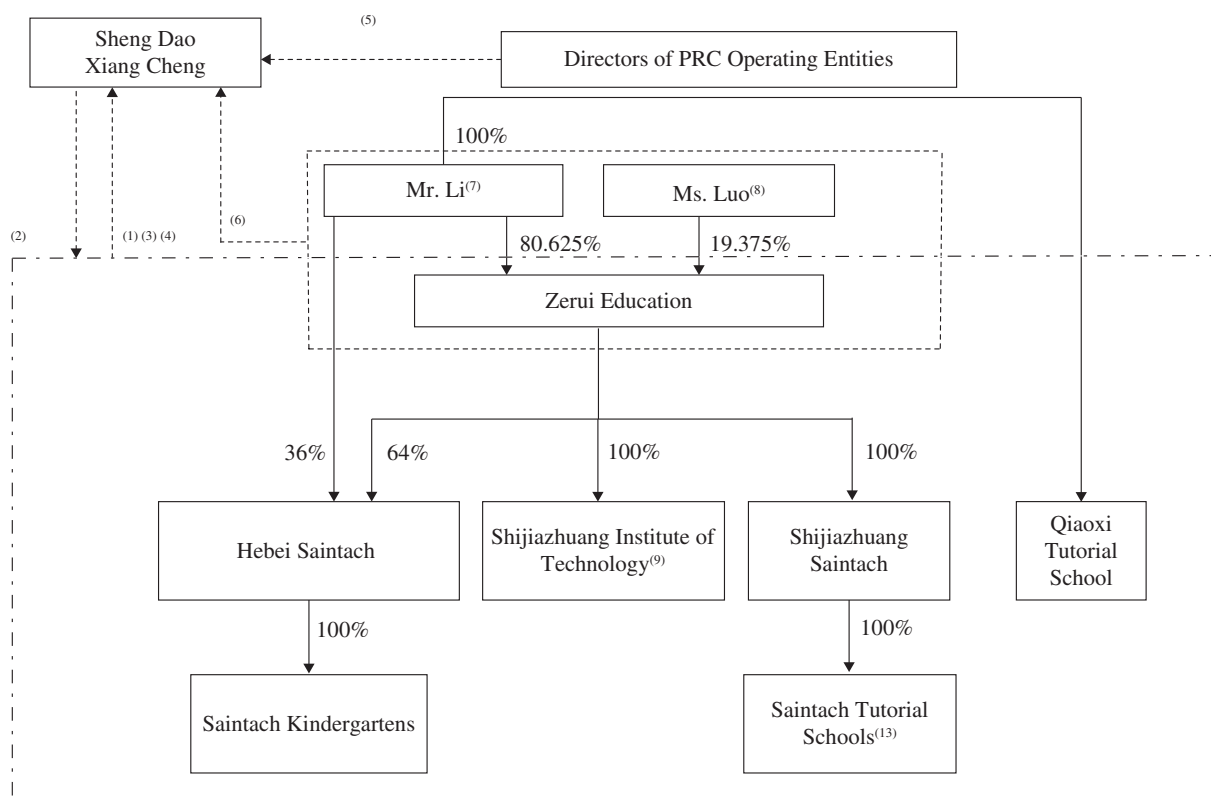
Our Directors confirm that we will (i) under the guidance of our PRC Legal Advisor, continue to keep ourselves abreast of all relevant regulatory developments and guidance relating to the Qualification Requirement, and (ii) provide periodic updates in our annual and interim reports after the Listing to inform our Shareholders of our efforts and actions undertaken to comply with the Qualification Requirement.

OPERATION OF THE STRUCTURED CONTRACTS

In order to comply with the PRC laws and regulations as set out above while availing ourselves of international capital markets and maintaining effective control over all of our operations, on October 17, 2017, our wholly-owned subsidiary, Sheng Dao Xiang Cheng entered into various agreements that constitute the Structured Contracts with, among others, our PRC Operating Entities, under which all economic benefits arising from the businesses of our PRC Operating Entities are transferred to Sheng Dao Xiang Cheng to the extent permitted under the PRC laws and regulations by means of services fees payable by our PRC Operating Entities to Sheng Dao Xiang Cheng.

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



Notes:

- (1) Payment of service fees. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (2) Exclusive Service Agreement” in this section for details.
- (2) Provision of exclusive technical and management consultancy services. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (2) Exclusive Service Agreement” in this section for details.
- (3) Exclusive call option to acquire all or part of (i) the equity interest in Zerui Education, Shijiazhuang Saintach and Hebei Saintach; and (ii) the school sponsor’s interest in Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (3) Exclusive Call Option Agreements” in this section for details.
- (4) Entrustment of school sponsors’ rights by each of Zerui Education, Mr. Li, Hebei Saintach and Shijiazhuang Saintach to Sheng Dao Xiang Cheng. Entrustment of shareholders’ rights in Hebei Saintach and Shijiazhuang Saintach by Mr. Li and Zerui Education, and Zerui Education by Mr. Li and Ms. Luo including shareholders’ powers of attorney. Please see “– Operation of the Structured Contracts-Summary of the Material Terms of the Structured Contracts – (4) School Sponsors’ and Directors’ Rights Entrustment Agreement”, “– (5) Shareholders’ Rights Entrustment Agreement”, “– (7) School Sponsors’ Powers of Attorney” and “– (9) Shareholders’ Powers of Attorney” in this section for details.
- (5) Entrustment of directors’ rights in our PRC Operating Entities by directors of the PRC Operating Entities including directors’ powers of attorney. Please see “– Operation of the Structured Contracts-Summary of the Material Terms of the Structured Contracts – (4) School Sponsors’ and Directors’ Rights Entrustment Agreement” and “– (8) Directors’ Powers of Attorney” in this section for details.
- (6) Pledge of equity interest by (i) the Registered Shareholders of their equity interest in Zerui Education; (ii) Mr. Li and Zerui Education of their equity interest in Hebei Saintach; and (iii) Mr. Li and Zerui Education of their equity interest in Shijiazhuang Saintach. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (6) Equity Pledge Agreements” in this section for details.
- (7) Mr. Li is the son-in-law of Ms. Luo.
- (8) Ms. Luo is the mother-in-law of Mr. Li and has been acting in concert with Mr. Li in connection with their interests in our Group since April 2005.
- (9) Infirmary of Shijiazhuang Institute of Technology was wholly-owned by Shijiazhuang Institute of Technology.

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- (10) “_____” denotes direct legal and beneficial ownership in the equity interest or school sponsor’s interest.
- (11) “.....” denotes Structured Contracts.
- (12) “_._._.” denotes our PRC Operating Entities.
- (13) For the illustration purpose of this diagram, Saintach Tutorial Schools include Chang’an Tutorial School, Donggang Tutorial School, Zhicheng Tutorial School, High-tech Zone Tutorial School and Huixuan Tutorial School, and do not include Qiaoxi Tutorial School, details of which was set out in “History and Corporate Structure – History of Our Schools and School Sponsors – 3. Our tutorial schools” in this prospectus.

Summary of the Material Terms of the Structured Contracts

A description of each of the specific agreements that comprise the Structured Contracts is set out below:

(1) Business Cooperation Agreement

Pursuant to the Business Cooperation Agreement, Sheng Dao Xiang Cheng shall provide technical service and management consultancy service necessary for the private education business pursuant to the Structured Contracts, and in return, our PRC Operating Entities shall make payments pursuant to the Structured Contracts. To ensure the due performance of the Structured Contracts, each of our PRC Operating Entities agreed to comply with, and procure any of its subsidiaries to comply with, and Mr. Li and Ms. Luo agreed to procure each of our PRC Operating Entities to comply with, the obligations as prescribed under the Business Cooperation Agreement including the following:

- (a) to carry out its private education operations in a prudent and efficient manner in accordance with good financial and business standards while maintaining the asset value of our PRC Operating Entities;
- (b) to prepare school development plans and annual working plans in accordance with the instructions of Sheng Dao Xiang Cheng;
- (c) to carry out its daily operation and management, financial management and other relevant business in accordance with the recommendations, advice, principles and other instructions of Sheng Dao Xiang Cheng;
- (d) to execute and act upon the recommendations of Sheng Dao Xiang Cheng in terms of employment and removal of senior management, teachers and staff;
- (e) to adopt the advice, guidance and plans given by Sheng Dao Xiang Cheng in relation to its strategic development; and
- (f) to carry on its related business operations and renew and maintain the licenses necessary for its related business operations.

In addition, pursuant to the Business Cooperation Agreement,

- (a) Mr. Li and Ms. Luo undertake to Sheng Dao Xiang Cheng that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of their equity interest in any of our PRC Operating Entities, they shall have made all necessary arrangement and shall have signed all necessary documents such that their respective successor, guardian, spouse, and any other person which may as a result of the above events obtain the equity interest or relevant rights shall not prejudice or hinder the validity and enforceability of the Structured Contracts;

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- (b) in the event of dissolution, reorganization, liquidation or bankruptcy of any of our PRC Operating Entities, (i) Sheng Dao Xiang Cheng or its designated person shall have the right to exercise all school sponsor's or shareholder's rights on behalf of the school sponsors or shareholders of our PRC Operating Entities; (ii) school sponsors or shareholders of our PRC Operating Entities shall transfer all assets received or receivable in his/her/its capacity as a school sponsor or a shareholder of each of our PRC Operating Entities as a result of the dissolution or liquidation of our PRC Operating Entities to Sheng Dao Xiang Cheng or other persons designated by it at nil consideration, and instruct all of our PRC Operating Entities to transfer such assets directly to Sheng Dao Xiang Cheng before such dissolution or liquidation; (iii) if consideration is required for such transfer under the then applicable PRC laws, school sponsors or shareholders of our PRC Operating Entities shall compensate Sheng Dao Xiang Cheng or the person as designated by it the amount and guarantee that Sheng Dao Xiang Cheng or other persons as designated by it does not suffer any loss; and
- (c) without the prior written consent of Sheng Dao Xiang Cheng, none of our PRC Operating Entities shall declare or pay to their respective shareholders or school sponsors any bonus, dividend or other interest or benefit. In the event that the school sponsors or shareholders of our PRC Operating Entities receive any bonus, dividend or other interest or benefit, they shall unconditionally and without compensation transfer such amount to a specific account designated by Sheng Dao Xiang Cheng after the execution of Structure Contracts.

In order to prevent the leakage of assets and values of the consolidated affiliated entities, Mr. Li, Ms. Luo and each of our PRC Operating Entities have undertaken that, without prior written consent of Sheng Dao Xiang Cheng or its designated party, he/she/it shall not conduct or cause to conduct any activity or transaction which may have actual adverse impact on the assets, business, staff, obligations, rights or operations of our PRC Operating Entities. Such activities and transactions include, without limitation:

- (a) establishment of any subsidiary or entity by any of our PRC Operating Entities;
- (b) conduct of any activity by any of our PRC Operating Entities which are outside the ordinary course of business or change of the mode of operations of any of our PRC Operating Entities;
- (c) consolidation, subdivision, change of form of corporate organization, dissolution or liquidation of any of our PRC Operating Entities;
- (d) provision of any borrowing, loan or guarantee in respect of any debt to, or takeover of any borrowing or loan from, our PRC Operating Entities by Mr. Li and Ms. Luo;
- (e) provision of any borrowing, loan or guarantee in respect of any debt to, or takeover of any borrowing or loan by any of our PRC Operating Entities from, any third party, except such borrowing, loan or guarantee as is necessary for the daily operations of our PRC Operating Entities;
- (f) change or removal of any director, supervisor or senior management of any of our PRC Operating Entities or its subsidiaries, increase or decrease of their remuneration package, or change in their employment terms and conditions;
- (g) sale, transfer, lease or authorization of the use or disposal of any assets or rights of any of our PRC Operating Entities or its subsidiaries to any third party other than Sheng Dao Xiang Cheng or its designated party, or purchase from any third party any assets or rights, except such disposal of assets or rights as is necessary for the daily operations of our PRC Operating Entities;
- (h) increase or decrease of the registered capital or initial fund of any of our PRC Operating Entities;

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- (i) alteration, amendment or revocation of any permits of any of our PRC Operating Entities;
- (j) amendment of the articles of association or scope of business of any of our PRC Operating Entities;
- (k) change of any normal business procedures or amendment of any internal procedures and system of any of our PRC Operating Entities, including but not limited to financial control system, terms and references of the board of directors, rules relating to supervisory committee meetings or shareholders' meetings and working instruction of the general manager;
- (l) entry into any business contracts or carrying out of any transactions outside the ordinary course of business of our PRC Operating Entities;
- (m) building of business or cooperative relationships similar to Structured Contracts with any person except for Sheng Dao Xiang Cheng or its designated person; and
- (n) carrying out of any transaction or activity which has or may have an adverse effect on the validity and enforceability of the Structured Contracts.

Furthermore, each of Mr. Li and Ms. Luo undertakes to Sheng Dao Xiang Cheng that, without prior written consent of Sheng Dao Xiang Cheng, he or she shall not (i) directly or indirectly engage, participate in or conduct any business or activities which compete or may potentially compete with the business or activities any of our PRC Operating Entities (the "Competing Business"), (ii) acquire or hold any interest in the Competing Business, (iii) use information obtained from any of our PRC Operating Entities for the Competing Business, and (iv) obtain any benefit from any Competing Business.

(2) *Exclusive Service Agreement*

Pursuant to the Exclusive Service Agreement, Sheng Dao Xiang Cheng, as the exclusive service provider of our PRC Operating Entities, agreed to provide exclusive technical services to our PRC Operating Entities related to their business, including but not limited to, (a) design, development, update and maintenance of software for computer and mobile devices; (b) design, development, update and maintenance of webpages and websites; (c) maintenance of management information systems; (d) provision of technical consulting services; (e) provision of technical training; (f) engagement of technical staff to provide on-site technical support; and (g) provision of other technical services reasonably requested by any of our PRC Operating Entities.

Furthermore, Sheng Dao Xiang Cheng, as the exclusive service provider of our PRC Operating Entities, agreed to provide exclusive management consultancy services to our PRC Operating Entities related to their business under the Exclusive Service Agreement, including but not limited to, (a) design of curriculum; (b) compilation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and business and management training services; (d) advising on management model, development plan, annual working plan, internal structures and annual budget; (e) advising on financial management system and internal management system; (f) provision of student recruitment support and services; (g) provision of public relation services; (h) conduct of market research; (j) building of education marketing network; and (k) provision of other management advisory services reasonably requested by our PRC Operating Entities.

STRUCTURED CONTRACTS

In consideration of the technical and management consultancy services provided by Sheng Dao Xiang Cheng, each of our PRC Operating Entities agreed to pay Sheng Dao Xiang Cheng a service fee equal to all of their respective amount of net profit after deducting all costs, expenses, taxes, losses from the previous year, social donated capital (if any), state funded capital (if any) and the legally compulsory development fund of the respective school (if required by the law), or a lesser amount determined by Sheng Dao Xiang Cheng at its absolute discretion.

Unless otherwise prescribed under the PRC laws and regulations, Sheng Dao Xiang Cheng shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by Sheng Dao Xiang Cheng to our PRC Operating Entities, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Service Agreement and/or any other agreements entered into between Sheng Dao Xiang Cheng and other parties.

On December 8, 2017, with the assistance of our PRC Legal Advisor, we consulted with officials at each of Shijiazhuang State Tax Bureau (石家莊國稅局) and Shijiazhuang Local Tax Bureau (石家莊地稅局), respectively, being competent persons at the competent authorities as advised by our PRC Legal Advisor. The officials confirmed that there are no tax-related restrictions or limitations under applicable PRC laws and regulations on our PRC Operating Entities paying service fees to the WFOE for receipt of technical and management consultancy services provided by the WFOE. In addition, the service fee arrangement among Sheng Dao Xiang Cheng and our PRC Operating Entities:

- (i) will not be regarded as part of the distribution of returns or profits given that there are actual services received by our PRC Operating Entities;
- (ii) will not be deemed as a form of tax evasion under applicable PRC laws and regulations; and
- (iii) will not affect the preferential tax treatment currently enjoyed by our PRC Operating Entities, nor subject our Group to any additional tax liabilities or penalties.

We also engaged Beijing Anshen Tax Agent Co., Ltd. (北京安審稅務師事務所有限責任公司), a qualified PRC tax expert, which confirmed that:

- (i) the Structured Contracts are legal, valid and binding commercial contracts under PRC laws, and do not constitute an attempt to conceal illegal intentions, nor fall within the definition of “tax evasion” under Article 63 of the PRC Administrative Law on Tax Collection (中華人民共和國稅收徵收管理法); and
- (ii) the service fee arrangement under the Structured Contracts will not nullify the preferential tax treatment currently enjoyed by our PRC Operating Entities or subject our Group to additional tax liabilities or penalties.

Our PRC Legal Advisor is also of view that (i) no current PRC laws or regulations restrict or prohibit our PRC Operating Entities from paying service fees for receipt of technical and management consultancy service from Sheng Dao Xiang Cheng; and (ii) such service fee arrangement will not nullify the preferential tax treatment enjoyed by our PRC Operating Entities, nor subject our Group to additional tax liabilities or penalties.

STRUCTURED CONTRACTS

(3) Exclusive Call Option Agreements

Under the Exclusive Call Option Agreements, (i) Mr. Li, Ms. Luo and Zerui Education have irrevocably granted Sheng Dao Xiang Cheng or its designated person the exclusive right to purchase all or part of the equity interest in Zerui Education, Shijiazhuang Saintach and Hebei Saintach; and (ii) Mr. Li and Hebei Saintach have irrevocably granted Sheng Dao Xiang Cheng or its designated person the exclusive right to purchase all or part of the school sponsor's interest in Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School ("Call Options"). The purchase price payable by Sheng Dao Xiang Cheng in respect of the transfer of such equity interest or school sponsor's interest upon exercise of the Call Options shall be RMB1.00 or the lowest price permitted under the PRC laws and regulations. Sheng Dao Xiang Cheng or its designated purchaser shall have the right to purchase such proportion of the equity interest or school sponsor's interest of our PRC Operating Entities as it decides at any time.

In the event that PRC laws and regulations allow Sheng Dao Xiang Cheng or us to directly hold all or part of the equity interest or school sponsor's interest in our PRC Operating Entities and operate private education business in the PRC, Sheng Dao Xiang Cheng shall issue the notice of exercise of the Call Options as soon as practicable, and the percentage of equity interest or school sponsor's interest purchased upon exercise of the Call Options shall not be lower than the maximum percentage then allowed to be held by Sheng Dao Xiang Cheng or us under PRC laws and regulations.

Each of Mr. Li, Ms. Luo, Zerui Education and Hebei Saintach has further undertaken that, he/she/it:

- (a) shall not let any third party except for Sheng Dao Xiang Cheng and its designated person acquire all or part of or create encumbrance over the relevant school sponsors' interest or equity interest, without prior written consent of Sheng Dao Xiang Cheng;
- (b) shall, prior to the transfer of the relevant school sponsor's interest or equity interest to Sheng Dao Xiang Cheng or its designated purchaser and without prejudice to the Structured Contracts, take all necessary actions including but not limited to execute all documents necessary for holding and maintaining the ownership of the relevant school sponsor's interest and equity interest;
- (c) shall not without prior written consent of Sheng Dao Xiang Cheng, give up any school sponsor's right or shareholder's right owned based on PRC laws and the article of association of relevant entities;
- (d) shall take all such actions to facilitate the relevant entities in their performance of its obligations under the Exclusive Call Option Agreements if such performance requires any action be taken by any of Mr. Li, Ms. Luo, Zerui Education or Hebei Saintach on his/her/its part;
- (e) shall, in its capacity as a school sponsor of the relevant entities and without prejudice to the Structured Contracts, procure directors nominated by it to exercise all rights to enable each of the relevant entities to perform its rights and obligations under the Exclusive Call Option Agreements, and shall replace any director who fails to do so;
- (f) shall, in its capacity as a school sponsor or shareholder of the relevant entities and without prejudice to the PRC laws, unconditionally return interests and distributions received from the relevant entities to Sheng Dao Xiang Cheng; and
- (g) shall not participate in any activities which may adversely effect the interests of Sheng Dao Xiang Cheng under the Structured Contracts.

Mr. Li and Ms. Luo have further undertaken that they shall not renounce their Chinese nationality and citizenship.

STRUCTURED CONTRACTS

(4) School Sponsors' and Directors' Rights Entrustment Agreement

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreement, each of Zerui Education, Mr. Li, Hebei Saintach and Shijiazhuang Saintach has irrevocably authorized and entrusted Sheng Dao Xiang Cheng to exercise all its/his rights as school sponsor of each of our schools to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to participate in the operation and management of the schools in accordance with their respective articles of association; (b) the right to appoint and/or elect directors or council members of the schools; (c) the right to appoint and/or elect supervisors of the schools; (d) the right to understand the operation and financial condition of the schools; (e) the right to review the resolutions and records of meetings of the board of directors or council and financial statements and reports of the schools; (f) the right to obtain profits as school sponsor of the schools in accordance with the PRC laws and the articles of association of the relevant schools; (g) the right to acquire residue assets upon liquidation of the schools in accordance with the PRC laws; (h) the right to transfer all or part of the school sponsors' interest in accordance with the PRC laws; and (i) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of the schools.

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreement, each of directors or council members of the schools has irrevocably authorized and entrusted Sheng Dao Xiang Cheng or its designated persons to exercise all his/her rights as directors or council members and to the extent permitted by the PRC laws. These rights include, but not limited to: (a) the right to attend meetings of the board of directors or council as representative of the directors or council members appointed by the schools; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board or council meeting of each of the schools; (c) the right to propose the convention of interim board or council meetings of each of the schools; (d) the right to sign all board or council minutes, resolutions or other legal documents to which the directors or council members appointed by the schools have authority to sign in his/her capacity as directors or council members of the schools; (e) the right to handle the legal procedures of registration, approval and licensing of the schools at the competent education department, civil affairs department or other government regulatory departments; and (f) other directors' or council members' rights pursuant to applicable PRC laws and regulations and the articles of association of the schools.

In addition, each of Mr. Li, Zerui Education, Hebei Saintach and Shijiazhuang Saintach and the appointed directors or council members of the schools have irrevocably agreed that, where permissible by PRC laws, (i) Sheng Dao Xiang Cheng may delegate its rights under the School Sponsors' and Directors' Rights Entrustment Agreement to the directors of Sheng Dao Xiang Cheng or its designated persons, without prior notice to or approval by the schools or their appointed directors or council members; and (ii) Sheng Dao Xiang Cheng is entitled to revoke its delegation to the aforesaid directors of Sheng Dao Xiang Cheng or other persons.

(5) Shareholders' Rights Entrustment Agreement

Pursuant to the Shareholders' Rights Entrustment Agreement, each of Mr. Li, Ms. Luo and Zerui Education has irrevocably authorized and entrusted Sheng Dao Xiang Cheng to exercise all his/her/its rights as shareholders of each of Zerui Education, Hebei Saintach and Shijiazhuang Saintach to the extent permitted by the PRC laws and the articles of association of each of Zerui Education, Hebei Saintach and Shijiazhuang Saintach. These rights include, but are not limited to: (a) the right to propose the convention of the meetings of shareholders; (b) the right to attend meetings of shareholders; (c) the right to exercise voting rights in respect of all matters discussed and resolved at the meeting of shareholders; (d) the right to sign the records, resolutions and decisions of the meeting of shareholders or other legal documents which Mr. Li, Ms. Luo and Zerui Education are entitled to sign as the shareholders; (e) the right to submit relevant documents to the relevant education department, civil affairs department or other competent government authorities; (f) the right to transfer, pledge or dispose of the equity interests in Zerui Education, Hebei Saintach and Shijiazhuang Saintach held by Mr. Li and/or Ms. Luo and/or Zerui Education; and (g) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of Zerui Education, Hebei Saintach and Shijiazhuang Saintach.

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In addition, Mr. Li, Ms. Luo and Zerui Education, without violation of PRC laws, have irrevocably agreed that (i) Sheng Dao Xiang Cheng may delegate its rights under the Shareholders' Rights Entrustment Agreement to the directors of Sheng Dao Xiang Cheng or its designated persons, without prior notice to or approval by Mr. Li, Ms. Luo or Zerui Education; and (ii) Sheng Dao Xiang Cheng is entitled to revoke its delegation to the aforesaid directors of Sheng Dao Xiang Cheng or other persons.

(6) Equity Pledge Agreements

Pursuant to the Equity Pledge Agreements, (i) Mr. Li and Ms. Luo unconditionally and irrevocably pledged and granted security interests over all of his/her equity interest in Zerui Education, (ii) Mr. Li and Zerui Education unconditionally and irrevocably pledged and granted security interests over all of his/its equity interest in Hebei Saintach, and (iii) Zerui Education unconditionally and irrevocably pledged and granted security interests over all of its equity interest in Shijiazhuang Saintach, together with all related rights thereto to Sheng Dao Xiang Cheng as security for performance of the Structured Contracts. In addition, Mr. Li, Ms. Luo and Zerui Education shall not, without the prior written consent of Sheng Dao Xiang Cheng, create further pledge or encumbrance over the pledged equity interests.

Any of the following events shall constitute an event of default under the Equity Pledge Agreements:

- (a) any of the Mr. Li, Ms. Luo or our PRC Operating Entities commits any breach of any obligations under the Structured Contracts;
- (b) any representations or warranties or information provided by any of Mr. Li, Ms. Luo or our PRC Operating Entities under the Structured Contracts is proved to be incorrect, inaccurate or misleading; or
- (c) any provision in the Structured Contracts becomes invalid or incapable of performance due to any change or promulgation of any PRC laws, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, Sheng Dao Xiang Cheng is entitled to negotiate with Mr. Li, Ms. Luo and/or Zerui Education to sell the pledged equity interests at a discount or by way of auction and Sheng Dao Xiang Cheng shall have priority in the entitlement to the sales proceeds.

The pledge under the Equity Pledge Agreement was registered with the relevant Bureau of Administration of Industry and Commerce of the PRC on April 4, 2018 and became effective on the same date.

There is no equity pledge arrangement regarding any equity pledges of our schools. As advised by our PRC Legal Advisor, even if we were to make an equity pledge arrangement regarding any equity pledges of our schools, given that the school sponsors' interests over the schools are not, by nature, equity interests, any such pledge would be unenforceable under PRC laws and regulations. Nevertheless, we have implemented various measures which shall remain in place until the winding up of the Structured Contracts, with the aim of further enhancing our control over our schools, in particular:

- (a) as disclosed above, pursuant to the Business Cooperation Agreement, Mr. Li, Ms. Luo and each of our PRC Operating Entities have undertaken that, without prior written consent of Sheng Dao Xiang Cheng or its designated party, he/she/it shall not conduct or cause to conduct any activity or transaction which may have an actual adverse impact on the assets, business, staff, obligations, rights or operations of our PRC Operating Entities. See “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement” in this section for details;

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- (b) as disclosed above, pursuant to the Exclusive Call Option Agreements, each of Mr. Li, Ms. Luo, Zerui Education and Hebei Saintach has further undertaken to Sheng Dao Xiang Cheng that, among others, it shall not sell, assign, transfer or otherwise dispose of or create any encumbrance over its school sponsors' interest and/or equity interest in the relevant entities without the prior written consent of Sheng Dao Xiang Cheng. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (3) Exclusive Call Option Agreements” in this section for details; and
- (c) our Company has taken measures to ensure that the company seals of our PRC Operating Entities are properly secured, are within the full control of Sheng Dao Xiang Cheng or its designated persons and cannot be used by Zerui Education, Mr. Li or Ms. Luo without our permission. Such measures include arranging for the company seals of our PRC Operating Entities to be kept in the safe custody of the finance department of Sheng Dao Xiang Cheng or its designated persons and setting up lines of authority for using the company seals, financial chops and business registration certificates such that the company seals, financial chops and business registration certificates can only be used under direct authorization of Sheng Dao Xiang Cheng or its designated persons.

(7) School Sponsors' Powers of Attorney

Pursuant to the School Sponsors' Powers of Attorney executed by each of Mr. Li, Zerui Education, Hebei Saintach and Shijiazhuang Saintach in favor of Sheng Dao Xiang Cheng, each of Mr. Li, Zerui Education, Hebei Saintach and Shijiazhuang Saintach authorized and appointed Sheng Dao Xiang Cheng as his/its agent to act on his/its behalf to exercise or delegate the exercise of all his/its rights as school sponsor of our schools. For details of the rights granted, please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement” in this section.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of Mr. Li, Zerui Education, Hebei Saintach and Shijiazhuang Saintach irrevocably agree that the authorization appointment in the School Sponsors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(8) Directors' Powers of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the directors or council members of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens in favor of Sheng Dao Xiang Cheng, each of the appointees authorized and appointed Sheng Dao Xiang Cheng as his/her agent to act on his/her behalf to exercise or delegate the exercise of all his/her rights as directors or council members of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens. For details of the rights granted, please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement” in this section.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of the appointees irrevocably agree that the authorization appointment in the Directors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The Directors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

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(9) Shareholders' Power of Attorney

Pursuant to the Shareholders' Power of Attorney executed by each of Mr. Li, Ms. Luo and Zerui Education in favor of Sheng Dao Xiang Cheng, each of the appointees authorized and appointed Sheng Dao Xiang Cheng as his/her/its agent to act on his/her/its behalf to exercise or delegate the exercise of all the rights as shareholders of Zerui Education, Hebei Saintach and Shijiazhuang Saintach. For details of the rights granted, please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (5) Shareholders' Rights Entrustment Agreement” in this section.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of the appointees irrevocably agree that the authorization appointment in the Shareholders' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The Shareholders' Power of Attorney shall constitute a part and incorporate terms of the Shareholders' Rights Entrustment Agreement.

(10) Spouse Undertakings

Pursuant to the Spouse Undertakings, the respective spouse of each of Mr. Li and Ms. Luo, the Registered Shareholders, has irrevocably undertaken that:

- (a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by the relevant Registered Shareholder, whether as a contractual party or not, and in particular, the arrangement as set out in the Structured Contracts in relation to the equity interest and/or school sponsor's interest in our PRC Operating Entities, including but not limited to any restrictions imposed, pledge or transfer or the disposal in any other forms;
- (b) the spouse has not, is not and shall not in the future participate in the operation, management, liquidation, dissolution or other matters in relation to our PRC Operating Entities; and
- (c) the spouse authorizes the respective Registered Shareholder and/or his/her authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in order to safeguard the interest of Sheng Dao Xiang Cheng under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures.

The Spouse Undertakings shall have the same terms as and incorporate the terms of the Business Cooperation Agreement.

DISPUTE RESOLUTIONS

Each of the Structured Contracts provides that:

- (a) any dispute or claim arising out of or in connection with the existence, validity, termination or effect of the invalidity of the Structured Contracts shall be resolved through negotiation after one party delivers to the other parties a written negotiation request;
- (b) if the parties are unable to settle the dispute within 30 days of delivery of such written negotiation request, any party shall have the right to refer the dispute to and have the dispute finally resolved by arbitration administered by the China International Economic and Trade Arbitration Commission in Beijing, the PRC under the prevailing effective arbitration rules thereof. The results of the arbitration shall be in writing, final and binding on all relevant parties and shall be enforceable by the courts of competent jurisdictions;

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- (c) the arbitration commission shall have the right to award remedies over the equity interest, school sponsor's interest, property interest and other assets of each of our PRC Operating Entities, injunctive relief (for the conduct of business or to compel the transfer of assets), or order the winding up of our PRC Operating Entities; and
- (d) upon request by any party, the courts of competent jurisdictions shall have the power to grant interim remedies in support of the arbitration pending formation of the arbitral tribunal or in appropriate cases. The courts of the PRC, Hong Kong, the Cayman Islands and the place where the principal assets of our Company and our PRC Operating Entities are located shall be considered as having jurisdiction for the above purposes.

In connection with the dispute resolution method as set out in the Structured Contracts and the practical consequences, we are advised by our PRC Legal Advisor that:

- (a) under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order for the purpose of protecting the interest of the WFOE in case of disputes. As such, these remedies may not be available to our Group under PRC laws;
- (b) further, under PRC laws, courts or judicial authorities in the PRC generally would not award remedies over the shares and/or assets of our PRC Operating Entities, any injunctive relief or order the winding-up of each of our PRC Operating Entities as interim remedies before there is a final arbitration award;
- (c) however, PRC laws do not disallow an arbitral body to give an award to transfer assets or equity interest in our PRC Operating Entities at the request of an arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures;
- (d) in addition, interim remedies or enforcement orders granted by overseas courts such as those in Hong Kong and the Cayman Islands may not be recognizable or enforceable in the PRC; therefore, in the event we are unable to enforce the Structured Contracts, we may not be able to exert effective control over each of our PRC Operating Entities, and our ability to conduct our business may be negatively affected; and
- (e) even if the above-mentioned provisions may not be enforceable under PRC laws, the remaining provisions of the dispute resolution clauses are legal, valid and binding on the parties to the agreement under the Structured Contracts.

As a result of the above, if any of our PRC Operating Entities, Mr. Li or Ms. Luo breaches any of the Structured Contracts, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Operating Entities and conduct our business could be materially and adversely affected. For further details, please see "Risk Factors – Risks Relating to our Structured Contracts" in this prospectus.

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PROTECTION IN THE EVENT OF DEATH, BANKRUPTCY OR DIVORCE OF THE REGISTERED SHAREHOLDERS

As disclosed above, pursuant to the Spouse Undertakings, the respective spouse of each of the Registered Shareholders has irrevocably undertaken, among others, to authorize the respective Registered Shareholders and/or his/her authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in order to safeguard the interest of Sheng Dao Xiang Cheng under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees that all such documents and procedures and any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (10) Spouse Undertakings” in this section for details.

In addition, as disclosed above, pursuant to the Business Cooperation Agreement, Mr. Li and Ms. Luo undertake to Sheng Dao Xiang Cheng that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of their equity interest or school sponsor’s interest in any of our PRC Operating Entities, they shall have made all necessary arrangement and shall have signed all necessary documents such that their respective successor, guardian, spouse, and any other person which may as a result of the above events obtain the equity interest or relevant rights shall not prejudice or hinder the validity and enforceability of the Structured Contracts. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement” in this section for details.

PROTECTION IN THE EVENT OF DISSOLUTION, REORGANIZATION, LIQUIDATION OR BANKRUPTCY OF OUR PRC OPERATING ENTITIES

In the event of dissolution, reorganization, liquidation or bankruptcy of any of our PRC Operating Entities, (i) Sheng Dao Xiang Cheng or its designated person shall have the right to exercise all of a school sponsor’s or shareholder’s right on behalf of the school sponsors or shareholders of our PRC Operating Entities; (ii) to the extent permitted by PRC laws, school sponsors or shareholders of PRC Operating Entities shall transfer all assets received or receivable in his/her/its capacity as school sponsor or shareholders of each of our PRC Operating Entities as a result of the dissolution or liquidation of our PRC Operating Entities to Sheng Dao Xiang Cheng or other persons designated by it at nil consideration, and instruct all of our PRC Operating Entities to transfer such assets directly to Sheng Dao Xiang Cheng before such dissolution or liquidation; (iii) if consideration is required for such transfer under the then applicable PRC laws, school sponsors or shareholders of our PRC Operating Entities shall compensate Sheng Dao Xiang Cheng or the person as designated by it the amount and guarantee that Sheng Dao Xiang Cheng or other persons as designated by it does not suffer any loss. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement” in this section for details.

Furthermore, Sheng Dao Xiang Cheng has been irrevocably authorized and entrusted to exercise all its rights as school sponsor of each of our schools and the rights of appointees as directors or council members of our schools. Please see “– Operation of the Structured Contracts – Summary of Material Terms of the Structured Contracts – (4) School Sponsors’ and Directors’ Rights Entrustment Agreement” in this section for details.

STRUCTURED CONTRACTS

LOSS SHARING

In the event that our PRC Operating Entities incur any loss or encounters any operational crisis, Sheng Dao Xiang Cheng may, but is not obliged to, provide financial support to our PRC Operating Entities. None of the agreements constituting the Structured Contracts provide that our Company or its wholly-owned PRC subsidiary, Sheng Dao Xiang Cheng, is obligated to share the losses of our PRC Operating Entities or provide financial support to our PRC Operating Entities. Further, each of our PRC Operating Entities shall be solely liable for its own debts and losses with assets and properties owned by it. Under PRC laws and regulations, none of our Company or Sheng Dao Xiang Cheng is expressly required to share the losses of our PRC Operating Entities or provide financial support to our PRC Operating Entities. Despite the foregoing, given that our PRC Operating Entities' financial condition and results of operations are consolidated into our Group's financial condition and results of operations under the applicable accounting principles, our Company's business, financial condition and results of operations would be adversely affected if our PRC Operating Entities suffer losses. However, due to the restrictive provisions contained in the Structured Contracts as disclosed in “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement” and “– (3) Exclusive Call Option Agreements” above, the potential adverse effect on Sheng Dao Xiang Cheng and our Company in the event of any loss suffered from our PRC Operating Entities can be limited to a certain extent.

TERMINATION OF THE STRUCTURED CONTRACTS

Each of the Structured Contracts provides that: (a) each of the Structured Contracts shall be terminated upon the completion of the purchase of all of the school sponsor's interest of the schools and all of the shareholdings of Hebei Saintach, Shijiazhuang Saintach and Zerui Education by Sheng Dao Xiang Cheng pursuant to the terms of the Exclusive Call Option Agreements, save for the Equity Pledge Agreements which shall continue to be in force until all obligations thereunder have been performed or all secured indebtedness has been repaid in full; (b) Sheng Dao Xiang Cheng shall have the right to terminate any of the Structured Contracts by serving a 30 days prior notice; and (c) each of our PRC Operating Entities, Mr. Li and Ms. Luo shall not be entitled to unilaterally terminate the Structured Contracts in any situation other than as prescribed by the laws.

INSURANCE

Our Company does not maintain any insurance policy to cover the risks relating to the Structured Contracts.

ARRANGEMENT TO ADDRESS POTENTIAL CONFLICT OF INTEREST

We have in place arrangements to address the potential conflicts of interest between Mr. Li and Ms. Luo on the one hand, and our Company on the other. Pursuant to the Business Cooperation Agreement, each of Mr. Li and Ms. Luo undertakes to Sheng Dao Xiang Cheng that, unless with the prior written consent of Sheng Dao Xiang Cheng, Mr. Li and Ms. Luo shall not directly or indirectly engage, participate in, conduct, acquire or hold any competing business and Sheng Dao Xiang Cheng is granted an option to (i) require the entity engaging in the competing business to enter into an arrangement similar to that of the Structured Contracts; or (ii) require the entity engaging in the competing business to cease operation. Please see “– Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement” in this section for details. Our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between Mr. Li and Ms. Luo on the one hand, and our Company on the other.

STRUCTURED CONTRACTS

LEGALITY OF THE STRUCTURED CONTRACTS

PRC Legal Opinions

Our PRC Legal Advisor is of the opinion that the Structured Contracts are narrowly tailored to minimize the potential conflict with relevant PRC laws and regulations and that:

- (a) the Structured Contracts as a whole and each of the agreements comprising the Structured Contracts are legal, valid and binding on the parties thereto, enforceable under PRC laws and regulations, and in particular, the Structured Contracts do not violate the provisions of the PRC Contract Law including “concealing illegal intentions with a lawful form”, and other applicable PRC laws and regulations, except that the Structured Contracts provide that the arbitral body may award remedies over the shares and/or assets or award injunctive relief and/or order the winding up of our PRC Operating Entities, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal or in appropriate cases, while under PRC laws, an arbitral body has no power to grant injunctive relief or to order an entity to wind up, and the aforesaid interim remedies granted by competent courts are only enforceable to the extent permitted under the relevant PRC laws and regulations and may not be recognizable or enforceable in the PRC;
- (b) each of the Structured Contracts is not in violation of provisions of the articles of association of our PRC Operating Entities and Sheng Dao Xiang Cheng, respectively;
- (c) No approval or authorization from the PRC governmental authorities are required for entering into and the performance of the Structured Contracts except that: (i) the pledge of any equity interest in Zerui Education, Shijiazhuang Saintach and Hebei Saintach for the benefit of Sheng Dao Xiang Cheng is subject to registration requirements with the relevant Bureau of Administration of Industry and Commerce; (ii) the transfer of school sponsors’ interest in our schools and of equity interest in Zerui Education, Shijiazhuang Saintach and Hebei Saintach contemplated under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable laws and (iii) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Structured Contracts are subject to applications to competent PRC courts for recognition and enforcement.

For details of the risks involved in the Structured Contracts, please see “Risk Factors – Risks Relating to our Structured Contracts” in this prospectus.

Directors’ views on the Structured Contracts

We believe that the Structured Contracts are narrowly tailored because the Structured Contracts are only used to enable our Group to consolidate the financial results of our PRC Operating Entities, which engage in the provision of preschool, higher, academic non-credential and secondary vocational education in the PRC, where the PRC laws, regulations or regulatory practice currently restrict operation of preschool, higher, academic non-credential and secondary vocational education to Sino-foreign ownership, in addition to imposing qualification requirements on the foreign owners.

As of the date of this prospectus, we have not encountered any interference or encumbrance from any governing bodies in our plan to adopt the Structured Contracts. As such, that the financial results of the operation of our PRC Operating Entities can be consolidated to those of our Group, and as advised by our PRC Legal Advisor, the Directors are of the view that the Structured Contracts are enforceable under the PRC laws and regulations, except for relevant arbitration provisions, as disclosed in “– Dispute Resolutions” in this section.

STRUCTURED CONTRACTS

The transactions contemplated under the Structured Contracts constitute continuing connected transactions of our Company under the Listing Rules upon the Listing and it is impracticable and unduly burdensome for them to be subject to the relevant requirements under the Listing Rules as our Directors are of the view that the transactions contemplated under the Structured Contracts are fundamental to our Group's legal structure and business operations, have been and shall be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Please see "Connected Transactions" in this prospectus for details.

COMBINATION OF FINANCIAL RESULTS OF OUR PRC OPERATING ENTITIES

According to IFRS 10 – Consolidated Financial Statements, a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Although our Company does not directly or indirectly own our PRC Operating Entities, the Structured Contracts as mentioned above enable our Company to exercise control over our PRC Operating Entities. The basis of combining the results of our PRC Operating Entities is disclosed in note 2.1 to the Accountants' Report. Our Directors consider that our Company can combine the financial results of our PRC Operating Entities as if they were our Group's subsidiaries.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Draft Foreign Investment Law and the Explanatory Notes

On January 19, 2015, MOFCOM released the Draft Foreign Investment Law and the Explanatory Notes to the Draft Foreign Investment Law (the "Explanatory Notes") for public consultation. The major changes that the Draft Foreign Investment Law introduces to the foreign investment regime in the PRC are as follows:

(1) The definitions of "foreign investors" and "foreign investment"

The Draft Foreign Investment Law introduces the concept of "control" and "actual control". Under Article 18 of the Draft Foreign Investment Law, the term "control" means that any of the following conditions is met in respect of an enterprise:

- (a) holding, directly or indirectly, more than 50% of shares, equities, share of properties, voting power or other similar equities in the enterprise;
- (b) holding, directly or indirectly, less than 50% of shares, equities, share of properties, voting power or other similar equities in the enterprise, but are under any of the following circumstances: (a) being entitled to, directly or indirectly, more than half of the members of the enterprise's board of directors or the similar decision-making body; (b) being capable of ensuring that its nominated personnel can occupy more than 50% of seats of the enterprise's board of directors or the similar decision-making body; and (c) the voting power it holds is sufficient to have significant influence on the resolutions of the meetings of shareholders, general assembly of shareholders, board of directors or other decision-making body; and
- (c) exerting decisive influence on the enterprise's management, finance, human resources or technologies, among other things, by contracts, trust or other ways.

For the purposes of the Draft Foreign Investment Law, the determination of "actual control" is an exercise to identify the ultimate natural person or enterprise that controls the foreign-invested enterprise. Article 19 of the Draft Foreign Investment Law defined "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

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If the investment amount of a foreign investment enterprise (“FIE”) exceeds certain thresholds or the business it operates falls within a “negative list” to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

The “variable interest entity” structure, or VIE structure, has been adopted by many PRC-based companies, and will be adopted by our Company in the form of the Structured Contracts, to establish control of our PRC Operating Entities by Sheng Dao Xiang Cheng, through which our Group operate its education business in PRC. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are “controlled” by foreign investors. For companies with a VIE structure in an industry category that is in the “restricted category” on the “negative list”, it is possible that the existing VIE structure may be deemed legitimate only if the actual controlling person(s) is/are of PRC nationalities (either PRC state-owned enterprises or agencies, or PRC citizens).

(2) The Negative List – restrictions on foreign investment

The Draft Foreign Investment Law stipulates restrictions on foreign investment in certain industry sectors. The negative list classified the relevant prohibited and restricted industries into the catalogue of prohibitions (“Catalogue of Prohibitions”) and the catalogue of restrictions (“Catalogue of Restrictions”), respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sector set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfil certain conditions and apply for permissions before making such investment.

Notwithstanding the Explanatory Notes do not provide a clear direction in dealing with contractual arrangements in existence before the Draft Foreign Investment Law becomes effective (the Draft Foreign Investment Law is still subject to public consultation and further study), MOFCOM has proposed under the Explanatory Notes three possible approaches in dealing with foreign-invested enterprises with existing contractual arrangements and conducting business in an industry falling in the Negative List:

- (a) to make a declaration to the competent authority of the State Council that the actual control is vested with Chinese investors, whereby contractual arrangements may be retained for its operation;
- (b) to apply to the competent authority of the State Council for certification that its actual control is vested with Chinese investors and upon verification by competent authority of the State Council, whereby the contractual arrangements may be retained for its operation; and
- (c) to apply to the competent authority of the State Council for permission, whereby the competent authority of the State Council together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

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Where foreign investors and foreign-invested enterprises circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level re-investment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 (Investments in Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the central government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors make investments in the sectors specified in the Catalogue of Restrictions without authorization, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the central government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, evading the performance of the information reporting obligation, concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the central government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, evading the performance of the information reporting obligation, concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the person-in-charge directly responsible and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Li and Ms. Luo, who are of Chinese nationality, are expected to indirectly hold an aggregate of more than 50% (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme) of the issued share capital of our Company upon completion of the Capitalization Issue and the Global Offering; and (ii) our Company through Sheng Dao Xiang Cheng exercises effective control over our PRC Operating Entities pursuant to the Structured Contracts, our PRC Legal Advisor is of the view that our Company may apply for the recognition of the VIE structure under the Structured Contracts as domestic investments and it is likely that the Structured Contracts will be considered as legal.

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Potential impact to our Company in the worst scenario that the Structured Contracts are not treated as a domestic investment

The operation of educational institutions offering preschool, higher education, academic non-credential and secondary vocational education may be in the catalogue of prohibitions of negative list and the Structured Contracts arrangement may be deemed as foreign investments on prohibited or restricted industry sector. If the Draft Foreign Investment Law is refined and deviates from the current draft, depending on the treatment of existing contractual arrangements, the Structured Contracts may be regarded as invalid and illegal. As a result, our Group would not be able to operate its schools through the Structured Contracts and our Company would have to terminate the Structured Contracts and lose the rights to receive the future economic benefits of our PRC Operating Entities. As a result, the financial results of our PRC Operating Entities would no longer be consolidated into our Group's financial results and our Group would have to derecognize their assets and liabilities according to the relevant accounting standards. An investment loss would be recognized as a result of such de-recognition.

Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad, our Directors are of the view that it is unlikely that, if the Draft Foreign Investment Law is promulgated, the relevant authorities will apply the rules retrospectively to require the relevant enterprises to remove existing contractual arrangements. In the future, the PRC government is likely to take a relatively cautious attitude towards the aspects of supervision as well as the enactment, and make decisions according to different practice situations.

However, there are uncertainties as to what the definition of control may be under the ultimate version of the Foreign Investment Law to be enacted in the future, and the relevant government authorities will have a broad discretion in interpreting the law and may ultimately take a view that is inconsistent with our PRC Legal Advisor's understanding. In any event, our Company will take reasonable steps in good faith to seek to comply with the enacted version of the Foreign Investment Law, if and when it comes into force.

Potential measures to maintain control over and receive economic benefits from our PRC Operating Entities

Our PRC Legal Advisor is of the view that the structure under the Structured Contracts is likely to be deemed as a domestic investment if the Draft Foreign Investment Law were to become effective in its current form and content. To ensure the Structured Contracts remain a domestic investment so that our Group can maintain control over our PRC Operating Entities and receive all economic benefits derived from our PRC Operating Entities, each of Mr. Li and Ms. Luo shall give an undertaking to our Company, and our Company shall agree with the Stock Exchange to enforce such undertaking to:

- (a) continue to maintain his/her Chinese nationality and citizenship for as long as he/she holds a controlling interest in our Company;
- (b) maintain control over our Company for the purposes of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated) and related laws applicable to our Group in relation to domestic investment when they become effective, or otherwise procure the transferee(s) who will become the new PRC controlling shareholder of our Company to provide an undertaking in the same terms and conditions as the one offered by him/her to our Company;
- (c) maintain the shares held by the ultimate control persons who are PRC citizens account for not less than 50% of the issued share capital of our Company including after the issuance of any new shares by Company. Further, upon completion of the Listing, the Shares held by Mr. Li (through Sainange Holdings) and Ms. Luo (through Sainray Limited) and the Shares held by their subsequent transferee(s) will be held in the form of physical certificates;

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- (d) obtain prior written consent of our Company as to the identity of the transferee(s) before Mr. Li or Ms. Luo disposes of, transfers or create security interest over the controlling interest in our Company that he or she beneficially owns, as a result of which Mr. Li and Ms. Luo will cease to have control over our Company. Prior to any such disposal, transfer or other transactions which may result in Mr. Li and Ms. Luo ceasing to have control over our Company for the purposes of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated), Mr. Li and Ms. Luo shall demonstrate to the satisfaction of our Company and the Stock Exchange that the Structured Contracts will remain a domestic investment for the purpose of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated) and related laws applicable to our Group in relation to domestic investment; and
- (e) instruct the relevant share registrar not to register any subscription, purchase and transfer of shares unless and until our Company is satisfied that the same will not result in Mr. Li and Ms. Luo ceasing to have control over our Company or any other breach of the undertaking.

Based on the view of our PRC Legal Advisor and the aforesaid undertaking to be given by each of Mr. Li and Ms. Luo, the Directors are of the view that (i) the VIE structure under the Structured Contracts are likely to be deemed as a domestic investment and be permitted to continue; and (ii) our Group can maintain control over our PRC Operating Entities and receive all economic benefits derived from our PRC Operating Entities. The aforesaid undertaking will become effective from the date of the Listing and will remain effective until compliance with the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated) is no longer required and the Stock Exchange has consented to such termination.

COMPLIANCE WITH THE STRUCTURED CONTRACTS

Our Group will adopt the following measures to ensure the effective operation of our Group with the implementation of the Structured Contracts and the compliance with the Structured Contracts:

- (a) major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the Structured Contracts at least once a year;
- (c) our Company will disclose the overall performance and compliance with the Structured Contracts in its annual reports and interim reports to update our Shareholders and potential investors;
- (d) our Company and our Directors undertake to provide periodic updates in the annual and interim reports, after its Listing, regarding the Qualification Requirement and the status of compliance with the Draft Foreign Investment Law and its accompanying explanatory notes, including the latest relevant regulatory development, as well as the plan and progress towards demonstrating compliance with the Qualification Requirement;
- (e) our Company will disclose, as soon as possible (i) any updates of changes to the Draft Foreign Investment Law that will materially and adversely affect our Company as and when they occur; and (ii) a clear description and analysis of the final Foreign Investment Law as implemented, specific measures taken by us to fully comply with the final Foreign Investment Law supported by a PRC legal opinion and any material impact of the final Foreign Investment Law on our operations and financial position; and

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- (f) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Structured Contracts and the legal compliance of Sheng Dao Xiang Cheng and our PRC Operating Entities to deal with specific issues or matters arising from the Structured Contracts.

In addition, notwithstanding that one of the Directors, Mr. Li, is also one of the Registered Shareholders, our Company believes that the Directors are able to perform their roles in our Group independently and our Group is capable of managing its business independently after the Listing under the following measures:

- (a) the decision-making mechanism of our Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of our Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;
- (b) each of our Directors is aware of his or her fiduciary duties as a Director which requires, amongst other things, that he or she acts for the benefits and in the best interests of our Group;
- (c) our Company will appoint three independent non-executive Directors, comprising more than one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and the Shareholders as a whole; and
- (d) our Group will disclose in its announcements, circulars and annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by our Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of our Group and any other conflicts of interest which any such person has or may have with our Group.

Furthermore, our Group will implement measures which shall be in place before the Structured Contracts are unwound, with an aim to further enhance its control over our PRC Operating Entities. In particular, our Company will take measures to ensure that the company seals of our PRC Operating Entities are properly secured, are within the full control of our Company and cannot be used by Zerui Education or the Registered Shareholders without the permission of Sheng Dao Xiang Cheng or our Company. Such measures include arranging for our Company seals of our PRC Operating Entities to be kept in the safe custody of the finance department of Sheng Dao Xiang Cheng or our Company and setting up lines of authority for using our Company seals, financial chops and business registration certificates such that our Company seals, financial chops and business registration certificates can only be used under direct authorization of Sheng Dao Xiang Cheng or our Company.

OVERVIEW

We are a large established private education service provider based in Hebei Province, China, serving a wide range of students from preschool students in our kindergartens, to primary school, middle school and high school students in our tutorial centers, to junior college and continuing education students in our college. As of the Latest Practicable Date, we had a total of 15 schools located in Shijiazhuang, Hebei Province, including one private college (Shijiazhuang Institute of Technology), six Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and eight Saintach Kindergartens. According to the Frost & Sullivan Report:

- our Shijiazhuang Institute of Technology, which commenced operation in October 2003, ranked second in terms of total student enrollment in the 2017-2018 school year among private junior colleges in each of Shijiazhuang, Hebei Province and the larger Integrated Area;
- our Saintach Tutorial Centers, the first of which commenced operation in February 2009, ranked fourth and seventh in terms of total revenue in the year ended December 31, 2017 among private tutoring service providers in Shijiazhuang and Hebei Province, respectively; and
- our Saintach Kindergartens, the first of which commenced operation in January 2011, ranked second and eleventh in terms of total student enrollment in the 2017-2018 school year among private preschools in Shijiazhuang and Hebei Province, respectively.

We had approximately 19,181 students enrolled at our college and kindergartens as of December 31, 2017. We delivered approximately 367,752 Tutoring Hours to approximately 4,928 students at our tutorial centers for the year ended December 31, 2017. We are strategically located in the Integrated Area, the largest urbanized region in Northern China and a vibrant and fast growing area with a large population that we believe provides us with significant growth potential.

We offer a diverse variety of education services for students of all ages ranging from preschool students at our Saintach Kindergartens to primary school, middle school and high school students enrolled in after-school tutoring programs at our Saintach Tutorial Centers, to teenagers and adults who enroll in our comprehensive secondary vocational and higher education programs offered at Shijiazhuang Institute of Technology. We believe our education programs at each stage are student-centric, and designed to help our students develop skillsets necessary to achieve their goals at different stages in life.

Our Shijiazhuang Institute of Technology offers a variety of comprehensive tertiary education programs, including full-time diploma programs at both junior college and secondary vocational school levels, as well as part-time continuing education programs. Our curriculums are focused on equipping students with practical and readily-usable skills that are valuable in the current job market. We have designed and implemented a coherent educational system for cultivating students, the “Technique-Occupation-Personality System” (the “TOP System”), to help improve the academic performance, employability, job-seeking skills and personal development of students at Shijiazhuang Institute of Technology. As a crucial element of the TOP System, we have established meaningful industry connections and attracted a large number of industry partners to establish a variety of simulation-based training programs for our junior college students at Shijiazhuang Institute of Technology. We believe our curriculums, together with our TOP System and, in particular, our collaboration with key industry partners, contribute to a high post-graduation employment rate for our students at Shijiazhuang Institute of Technology. Over its 14 years of development, Shijiazhuang Institute of Technology has established a strong reputation among students and achieved notable success. In the 2017-2018 school year, Shijiazhuang Institute of Technology ranked second in terms of total student enrollment among private junior colleges in each of Shijiazhuang, Hebei Province and the larger Integrated Area, with a market share of approximately 8.4%, 7.4% and 6.2%, respectively, according to the Frost & Sullivan Report.

Our Saintach Tutorial Centers provide high-quality individual or small-group tutoring for primary school, middle school and high school students. We tailor tutoring programs to meet the specific learning needs of individual students. Each student at our Saintach Tutorial Centers is assigned a “Golden Coach” (金牌教練), a learning advisor who works with the student to customize a tutorial program and monitors the student’s progress on an on-going basis. We believe our customized tutoring services can provide students the opportunity to extend their learning beyond the limits of standardized school curriculums, build the learning skills they need to improve their scores effectively and achieve their broader goals. We also believe that the quality of our services and the success of our students have helped us achieve consistent growth in student enrollment and, at the same time, enabled us to increase our tutoring fees. In the year ended December 31, 2017, our Saintach Tutorial Centers ranked fourth and seventh in terms of total revenue among private tutoring service providers in Shijiazhuang and Hebei Province, respectively, according to the Frost & Sullivan Report.

The overarching goal at our Saintach Kindergartens is to cultivate our children to become good citizens who are confident, friendly, tolerant and responsible from an early age. We believe it is important to not only focus on the academic performance of our kindergarten students but also to nurture them by creating an environment that accommodates the distinct learning needs, interests, aspirations and backgrounds of individual students. To this end, we have developed the “Saintach Multi-faceted International Course System” (the “SMI Course System”), a distinctive curriculum system designed for preschool students that blends elements from both traditional Chinese culture and modern, developmental educational approaches. In addition, we have also developed a wide array of preschool educational resources, such as our own preschool teaching materials. As an affirmation of the success of our Saintach Kindergartens, we ranked second and eleventh in terms of total student enrollment in the 2017-2018 school year among private preschools in Shijiazhuang and Hebei Province, respectively, according to the Frost & Sullivan Report.

We also employ a standardized and centralized management approach to manage key aspects of operations of our Saintach Tutorial Centers and Saintach Kindergartens. We believe such an approach makes our operating model highly scalable and helps us integrate our resources, achieve economies of scale, lower our operating costs, and serve a large student body while maintaining consistent quality. In addition, this high degree of standardization and centralization provides us with a highly replicable business model that allows us to expand rapidly. We believe this standardized and centralized management approach, along with our reputation, our student-centric educational approach and our wide variety of education programs and services targeting students at all ages, enables us to benefit from the rapid economic growth of the Integrated Area and the expected increasing demand for private education in the PRC. We intend to strengthen our market position and further enhance our brand name and recognition in Shijiazhuang, and elsewhere in Hebei Province and the larger Integrated Area, by continuing to expand our network of schools and tutorial centers.

We experienced significant growth in our student enrollment over the Track Record Period. Our overall combined student enrollment in Shijiazhuang Institute of Technology and our Saintach Kindergartens cumulatively grew from approximately 11,913 as of June 30, 2015 to approximately 14,820 as of June 30, 2017, and further to 19,181 as of December 31, 2017. Student enrollment in our Saintach Tutorial Centers, represented by Tutoring Hours delivered to students, also grew from approximately 329,635 Tutoring Hours (covering approximately 3,710 students tutored) for the year ended December 31, 2015 to approximately 367,752 Tutoring Hours (covering approximately 4,928 students tutored) for the year ended December 31, 2017.

We also experienced growth in our revenue, gross profit, net profit and adjusted net profit over the Track Record Period. Our total revenue grew from RMB147.3 million for the year ended December 31, 2015 to RMB169.7 million for the year ended December 31, 2017. Our gross profit and net profit grew from RMB59.9 million and RMB26.7 million, respectively, for the year ended December 31, 2015 to RMB76.4 million and RMB45.0 million, respectively, for the year ended December 31, 2017. Our adjusted net profit grew significantly from RMB26.7 million for the year ended December 31, 2015 to RMB56.7 million for the year ended December 31, 2017. Please see “Financial Information – Key Components of Our Results of Operations – Non-IFRS Measure” in this prospectus for details.

OUR COMPETITIVE STRENGTHS

We believe we have a number of competitive strengths which contribute to our success and differentiate us from our competitors, including:

Large established private education service provider offering a diverse range of private education services in Hebei Province

We are a large established private education service provider based in Hebei Province, China, serving a wide range of students from preschool students to students in primary school, middle school and high school, to junior college and continuing education students. As of the Latest Practicable Date, we had a total of 15 schools located in Shijiazhuang, Hebei Province, including one private college (Shijiazhuang Institute of Technology), six Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and eight Saintach Kindergartens. We had approximately 19,181 students enrolled at our college and kindergartens as of December 31, 2017. In addition, we delivered approximately 367,752 Tutoring Hours to approximately 4,928 students at our tutorial centers for the year ended December 31, 2017. According to the Frost & Sullivan Report, our Shijiazhuang Institute of Technology ranked second in terms of total student enrollment in the 2017-2018 school year among private junior colleges in each of Shijiazhuang, Hebei Province and the larger Integrated Area. In addition, our Saintach Kindergartens and Saintach Tutorial Centers ranked second (in terms of total student enrollment in the 2017-2018 school year) and fourth (in terms of total revenue in the year ended December 31, 2017), respectively, among comparable private education service providers in Shijiazhuang, according to the Frost & Sullivan Report.

The breadth of our potential market across students of different ages is one of our greatest strengths. It is our educational philosophy that learning is a lifelong process and we should be as inclusive as possible in our student intakes and provide education programs that may appeal to students from toddlers to seniors. As a result, our student base stretches from preschool students at our Saintach Kindergartens to primary school, middle school and high school students enrolling in after-school tutoring programs at our Saintach Tutorial Centers, to teenagers and adults who can enroll in a variety of comprehensive education programs, including full-time diploma programs at both junior college and secondary vocational school levels as well as part-time continuing education programs offered at Shijiazhuang Institute of Technology.

Each of our business segments has been successful and recognized with significant awards as a result of its success. Shijiazhuang Institute of Technology has been appointed as a “Vice Minister Member” (副部長單位) of the Senior Vocational Education Division of the Higher Education Professional Committee of China’s Non-government Education Association* (中國民辦教育協會高等教育專業委員會高職工作部) from March 2014 to March 2019 and was recognized by the Education Department of Hebei Province as an “Outstanding Private School” in its 2016 annual inspection (2016年檢優秀民辦學校). Its success is also illustrated by the high job placement of its graduates with approximately 91.7%, 92.2% and 91.6% of total junior college students graduating in June 2015, 2016 and 2017, respectively, having found employment by the end of the year in which they graduated. Our Saintach Tutorial Centers were awarded the “Most Trustworthy Tutorial Institution Brand in Hebei Province* (河北省最受信賴品牌教育培訓機構)” and “Top 10 Reputable Tutorial Institution in Hebei Province* (河北省十佳品牌教育培訓機構)” in 2014. We also received the award of “Outstanding Quality Private Kindergarten (民辦優質特色幼稚園)” from the Preschool Education Professional Committee of China’s Non-Government Education Association* (中國民辦教育協會學前教育專業委員會) in 2015. In addition, two of our Saintach Kindergartens were named “City’s Tier-one Kindergarten (城市一類幼稚園)” by Shijiazhuang Education Bureau* (石家莊市教育局) in 2013 and 2014, respectively. Please see “– Awards and Recognition” in this section for further details of the awards and recognitions of our schools and tutorial centers.

In addition, we are strategically located in the largest urbanized region in Northern China, a vibrant and growing area with a large population that provides us with significant potential. In April 2015, with the aim of reducing development gaps and improving the overall competitiveness of the Integrated Area, the Chinese government approved the Outline of the Plan for Coordinated Development of the Beijing-Tianjin-Hebei Region (京津冀協同發展規劃綱要) (the “Outline”). The Outline sets out the Chinese government’s initiatives to relocate certain functions and industries from Beijing to Hebei Province and Tianjin to ease population pressure in Beijing and strengthen the competitiveness of the surrounding areas. As a result, Hebei Province, as part of the Integrated Area, is expected to modernize, urbanize and industrialize at an accelerated rate. According to the Frost & Sullivan Report, the rapid integration and coordinated development of the Integrated Area is expected to provide more growth opportunities for educational institutions in the region. As such, we plan to further increase our market penetration and enhance our brand name and recognition in Shijiazhuang, and elsewhere in Hebei Province and the larger Integrated Area, by continuing to expand our network of schools and tutorial centers in the next several years. Please see “– Our Business Strategies – Expand our network and increase our market penetration in the Integrated Area, and strengthen our brand and reputation” in this section for details.

Student-centric educational approach at each level of student development

We believe the education programs at our schools and tutorial centers are student-centric and designed to help our students develop the specific skills necessary to achieve their goals at different stages of their development. We have effectively applied such approach at each of our business segments, which we believe distinguishes us from our competitors. Examples of our student-centric approach include:

- *TOP System and collaboration with industry partners:* The education programs at Shijiazhuang Institute of Technology focus on equipping our students with practical and readily-useable skills that are valuable in the current job market. To achieve this goal, we have designed and implemented a coherent educational system for cultivating students, the TOP System, to help improve the academic performance, employability, job-seeking skills and personal development of students at Shijiazhuang Institute of Technology. Notably, as a crucial component of the TOP System, we have established meaningful industry connections and attracted a large number of industry partners to establish a variety of simulation-based training programs for our junior college students at Shijiazhuang Institute of Technology. Students admitted to such programs receive training in a stimulated work environment directly in line with our industry partners’ requirements and practical needs. We believe our curriculums, supported by our TOP System and, in particular, our collaboration with potential employers in the key industries, help us nurture more career-ready graduates and maintain our high job placement rate. Please see “– Our Schools – Shijiazhuang Institute of Technology – Junior College Program” in this section for details.
- *Golden Coaches:* Each student tutored at our Saintach Tutorial Centers is assigned one of our Golden Coaches, a learning advisor who works with the student to customize a tutorial program based on individual assessments and consultations, and monitors the student’s progress on an on-going basis. One of the primary goals of our Saintach Tutorial Centers is to help our students improve their grades and obtain the scores they need in national examinations, such as the Zhongkao and the Gaokao, in order to achieve their academic goals. However, we do not only focus on quantitative academic results. We also aim to cultivate our students’ interest in learning and help them overcome academic weaknesses, develop problem-solving skills and strengthen their self-confidence. Our Golden Coaches serve as a central liaison point between students and teachers, which provides them a unique vantage point to appreciate the individual needs and goals of our students. Please see “– Our Schools – Saintach Tutorial Centers – Golden Coaches” in this section for details.

- *SMI Course System:* We have developed the SMI Course System, a distinctive curriculum system designed for preschool students at our Saintach Kindergartens to address the distinct learning needs, interests, aspirations and backgrounds of individual students, and foster their overall development. Our Saintach Kindergartens aim to cultivate our children to become good citizens who are confident, friendly, tolerant and responsible from an early age. We believe it is important to not only focus on the academic performance of our young students but also to expose them to a nurturing, supportive and multi-cultural learning environment. We believe our SMI Course System, which blends elements from both traditional Chinese culture and modern, developmental educational approaches, can effectively create a learning environment that best serves the individual needs of our preschool students. Please see “– Our Schools – Saintach Kindergartens – Philosophy and Curriculum” in this section for details.

Diversified and recurring income streams allowing us to mitigate against single income stream risks

Our diverse portfolio of complementary education programs and services across our schools and tutorial centers provide us with a number of reliable, diverse and stable income streams.

We believe the multiple income streams coming from our diverse, complementary education programs and services can help us mitigate against risks associated with having a single income stream. For example, at Shijiazhuang Institute of Technology, apart from our full-time diploma programs and part-time continuing education programs, we also provide a variety of ancillary education services, such as professional training services and college operation services to the west campus of Sifang College. We generate substantial income from providing services to the west campus of Sifang College in relation to school operation and student administration. During the Track Record Period, such college operation service income amounted to RMB19.7 million, RMB19.7 million and RMB19.8 million, respectively, for the years ended December 31, 2015, 2016 and 2017, representing 13.4%, 13.4% and 11.7%, respectively, of our total revenue for the respective periods.

Our income streams are generally recurring, as students who are enrolled in our schools generally continue their education with us until their graduation at such schools, and students who are enrolled in our tutorial programs typically sign up for additional tutoring services after they have completed their first course package. For the years ended December 31, 2015, 2016 and 2017, retention rate of our students at our Saintach Kindergartens amounted to 96.0%, 98.7% and 99.3%, respectively. In each of the same periods, approximately 48.8%, 51.7% and 55.4% of the students tutored at our Saintach Tutorial Centers whose course packages expired chose to renew their course packages with us. At Shijiazhuang Institute of Technology, approximately 80% of the students who enrolled in our secondary vocational education program went on to enroll in our junior college program in the 2016-2017 school year.

Highly scalable business model using standardized management

For our Saintach Tutorial Centers and Saintach Kindergartens, we have adopted a standardized and centralized approach to managing key aspects of our school operations. We believe this approach makes our operating model highly scalable and helps us integrate our resources, achieve economies of scale, lower our operating costs, and serve a large student body while maintaining consistent quality standards.

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We have adopted standardized operations and centralized management throughout our operations for our Saintach Tutorial Centers and Saintach Kindergartens, including:

- *Standardized operation and management protocols:* We have compiled a set of detailed standardized operation and management protocols that are strictly followed by each of our tutorial centers and kindergartens. These protocols generally set out key operating procedures relating to topics such as design, use and delivery of curriculum, student recruitment and administration, teacher training, parent communication, logistics, internal control and quality control. The protocols for our Saintach Kindergartens also encompass standard operating procedures regarding food supply, campus security and environmental factors, such as hygiene, health and disease control.
- *Open educational resources:* Educational resources, such as teaching staff and materials, are also centrally-managed and can be allocated to individual tutorial centers and kindergartens as needed.
- *Centralized teacher training:* We have provided regular centralized teacher training sessions for teachers at our Saintach Tutorial Centers and Saintach Kindergartens. Our centralized teacher training sessions cover a variety of topics, including introduction to our corporate culture, curriculum system and educational philosophy, teaching theories, methodologies and techniques, and customer communication skills. We believe our centralized teacher training can effectively improve our teachers' professional skills and teaching quality to ensure that consistent and high-caliber education services are delivered across our school network.
- *Specialized teaching research support:* To enhance the quality of our education services, we have established two teaching research centers, one for our Saintach Kindergartens and one for our Saintach Tutorial Centers. These teaching research centers consist of teachers within our Group as well as external educational experts, and are primarily responsible for researching and developing core curriculums, education strategies, course materials and exam preparation materials to be used at our kindergartens and tutorial centers, as well as conducting training for teaching staff and management teams across our school network.
- *Efficient school management tools:* We maintain a customer relationship management (CRM) system for our Saintach Tutorial Centers which enables us to keep track of student data and the services we provide and helps us efficiently operate and manage each of our tutorial centers.

Accordingly, we are able to implement standardized guidelines and centrally-planned logistics for all aspects of school operations at our tutorial centers and kindergartens to ensure that they are operated in a consistent and effective manner.

We believe the standardized operation and management of our tutorial centers and kindergartens allow us to reach financial profitability more quickly due to our ability to effectively control our operating costs and maintain consistent quality across our school network. We also believe our ability to apply such management approach to acquired school facilities greatly enhances our ability to grow our network rapidly and effectively, and will prove valuable going forward.

Well positioned to benefit from the expected increasing demand for private education in the PRC and the Integrated Area to capture growth opportunities

We believe our reputation, our student-centric educational approach, our wide variety of education programs and services targeting students at all ages, and our ability to expand rapidly based on our highly replicable business model enable us to benefit from the expected increasing demand for private education in the PRC and the rapid integration and coordinated development of the Integrated Area to capture growth opportunities.

The private education industry in China has experienced significant growth in recent years. According to the Frost & Sullivan Report, there was an increasing number of students shifting from public schools to private schools from 2011 to 2017. The total number of students enrolled in private schools in the PRC increased from 37.1 million in 2011 to 50.9 million in 2017, representing a CAGR of 5.4%. This number is expected to increase to 64.4 million by 2021, representing a CAGR of 6.1% from 2017. According to the Frost & Sullivan Report, such expected growth is primarily driven by the increasing preference of parents for high quality academic programs offered by private educational institutions that focus on all-round development of students, as well as favorable laws and regulations supporting the development of private schools. Please see “Industry Overview” and “Regulatory Overview” in this prospectus for details.

In particular, we believe the Integrated Area, in which we have already established a solid presence, provides even greater opportunities for future growth. According to the Frost & Sullivan Report, the number of students enrolled in private schools in the Integrated Area is expected to increase at a CAGR of 7.6% from 2017 to 2021, greatly surpassing the increase in the PRC as a whole during the same period. In addition, as the Integrated Area accelerates its pace towards the industrial transformation, there is a growing demand for students equipped with higher quality skills and training. We plan to take advantage of such opportunities through strategic expansion and development in this area. Please see “– Our Business Strategies – Expand our network and increase our market penetration in the Integrated Area, and strengthen our brand and reputation” in this section for details.

Experienced management team with proven track record, complemented by a highly qualified teaching team

Members of our management team have extensive knowledge of and management experience in the education industry and are supported by our outstanding teaching team. We believe the strength of both of these teams is instrumental to our success.

Our management team consists of our executive Directors and senior management. The team is led by Mr. Li (the founder of our Group, the chairman of our Board and our executive Director) who has more than 20 years of experience in the education industry. Mr. Li is responsible for the overall formulation and guidance of our business strategy and development of our Group. Mr. Li commenced his career as a teacher in Hebei Institute of Physical Education* (河北體育學院) in July 1985. Mr. Li’s vision is that education should not only develop the academic skillsets of students but also help a student become a well-rounded person through a holistic development. To put his vision into practice, he established our first school, Shijiazhuang Institute of Technology, in 2003. In addition, the majority of our executive Directors and senior management have been in the education industry for years and have extensive experience in school management. Many of them joined us at the beginning of their careers as junior teachers and staff and have been promoted internally to management level. We also strive to provide our employees with opportunities to have a personal stake in our Company and to grow with us by granting stock options to eligible employees whose contributions are significant to the growth and success of our Group. We believe they can gain a deep understanding of our business, culture and value, and will be equipped with an ownership mentality through such a process. Please see “Directors and Senior Management” in this prospectus for details of the relevant experience of our Directors and senior management.

We have also cultivated a highly qualified teaching team. We believe that the quality of our teachers is of paramount importance in maintaining the high standards of education services we provide. We have applied stringent recruitment standards when hiring teachers to ensure that they possess high levels of professional expertise with sufficient qualifications and teaching experience. A number of our teachers have been recognized for their outstanding achievements and their contributions to the outstanding performance of our students. Please see “– Awards and Recognition” in this section for details.

OUR BUSINESS STRATEGIES

We intend to continue to significantly grow our successful business as a large private education service provider in Hebei Province and the larger Integrated Area. We plan to achieve this goal through the following business strategies:

Expand our network and increase our market penetration in the Integrated Area, and strengthen our brand and reputation

We plan to leverage our standardized operation and management procedures to expand our network and increase our market penetration in the Integrated Area in accordance with the following strategies:

- *Expand our Saintach Kindergarten network in the Integrated Area:* According to the Frost & Sullivan Report, from 2011 to 2017, total student enrollment in private preschool education in the Integrated Area increased from approximately 606,000 to approximately 1.2 million, representing a CAGR of 12.7%. This number is expected to increase to 1.9 million by 2021, representing a CAGR of 10.8% from 2017, according to the Frost & Sullivan Report. In order to capture the growth potential in the area, we intend to expand our network of Saintach Kindergartens in the Integrated Area through acquiring and rebranding third party kindergartens. When selecting an acquisition target, we will consider factors that include, among other things, school location, demographics in the area, condition of school facilities, number of existing students, historical performance of the school, strategic value in expanding into the area, qualifications and quality of the teaching staff, as well as total acquisition and conversion costs. We currently plan to add another three and 10 Saintach Kindergartens in the years ending December 31, 2018 and 2019, respectively, at an estimated cost of approximately RMB8 million to RMB20 million for each target, though the actual number of such kindergartens acquired and rebranded will depend in part on our ability to identify and acquire appropriate targets. All of the funds to be used for acquiring and rebranding third party kindergartens will come from the proceeds of the Global Offering. Please see “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for details.
- *Expand our Saintach Tutorial Center network in the Integrated Area:* According to the Frost & Sullivan Report, from 2011 to 2017, total revenue from after-school tutoring in the Integrated Area increased from approximately RMB11.3 billion to approximately RMB24.4 billion, representing a CAGR of 13.7%, and is expected to increase to RMB35.3 billion by 2021, representing a CAGR of 9.7% from 2017. In response to increasing demand for after-school tutoring services, we intend to expand our network of Saintach Tutorial Centers in the Integrated Area through acquiring and rebranding tutorial schools operated by third party after-school tutoring service providers. We are particularly interested in tutorial schools focused on providing small-group tutoring services, given such services generally incur less staff costs and yield higher profit margins. Other factors we will consider when selecting an acquisition target include, among other things, school location, demographics in the area, condition of school facilities, number of existing students, historical performance of the school, qualifications and quality of the teaching staff, as well as total acquisition and conversion costs. We currently plan to add another eight to 10 Saintach Tutorial Centers in the year ending December 31, 2019, at an estimated cost of approximately RMB7.5 million to RMB15 million for each target, though the actual number of tutorial centers acquired and rebranded will depend in part on our ability to identify and acquire appropriate targets. All of the funds to be used for acquiring and rebranding third party tutorial centers will come from the proceeds of the Global Offering. Please see “Future Plans and Use of Proceeds – Use of Proceeds” in this prospectus for details.

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The following table sets forth certain key qualitative and quantitative factors we will consider when selecting an acquisition target for our Saintach Kindergartens and Saintach Tutorial Centers and the estimated number of such schools we plan to acquire in 2018 and 2019:

	Expected Student Enrollment of the Target	Preferred Target Geographic Areas	Expected Payback Period ⁽¹⁾	Expected Investment Return ⁽²⁾	Expected Number of Schools Acquired in the Year Ending December 31,	
					2018	2019
Saintach Kindergartens	Approximately 200-300 students per target kindergarten	The Integrated Area	Three to four years after the commencement of operations of the target school	20%-25%	Three	10
Saintach Tutorial Centers	Approximately 500-2,000 students per target tutorial school	The Integrated Area	Five to six years after the commencement of operations of the target school	15%-20%	Nil	Eight to 10

Notes:

- (1) Expected payback period refers to the period of time required to recover our expected total investment. It is the period of time during which the total future net cash flow generated from operating activities equals to the expected total investment.
- (2) Expected investment return refers to the estimated internal rate of return of discounting (a) the school's future net cash flow from operating activities; and (b) the Group's total investment in the relevant school, to their present values.

We have a proven track record of replicating our business model and have accumulated significant experience in operating tutorial schools and kindergartens in Hebei Province and the larger Integrated Area. The total number of our Saintach Tutorial Centers and Saintach Kindergartens increased from two (including one Saintach Tutorial Center and one Saintach Kindergarten) in 2010 to 19 (including 11 Saintach Tutorial Centers and eight Saintach Kindergartens) as of the Latest Practicable Date. As we expand rapidly in the relevant markets, we believe our "Saintach" brand has achieved wide recognition and distinguishes us from our competitors. We believe our reputation, our well-established presence and our familiarity with the local markets, together with our highly scalable business model, can help us smoothly integrate the tutorial schools and kindergartens we acquire and rebrand into our school network, and help such schools to improve their quality and efficiency, lower their costs, and achieve synergies with our existing schools and kindergartens under the "Saintach" brand.

We believe that our planned expansion would not only increase our student enrollment and tuition revenue, but that the increase in market share would help us further strengthen our brand and reputation in the market. This is important as we believe parents and students place considerable weight on brand and reputation when selecting a school and/or a tutorial center.

Optimize and diversify our education services and widen our revenue base

In order to enhance our profitability, we plan to optimize and diversify our service offerings to attract more students and to widen our revenue base.

With the coordinated development of the Integrated Area, we plan to launch high-end, customized vocational training programs at Shijiazhuang Institute of Technology through collaboration with prestigious public and private corporations which are relocating their manufacturing or industrial bases from Beijing and Tianjin to Hebei Province. Such vocational training programs aim to equip industrial workers with the right skillsets for their work. In June 2016, we already established a vocational training program with Hebei Guoshi Jieneng Technology Co., Ltd.* (河北國石節能科技有限公司) (“Guoshi Jieneng”) for students at Shijiazhuang Institute of Technology and the front-line mechanics, sales forces, and research and development personnel in the manufacturing industry. We intend to extend such training to other corporate partners in the near future. We also plan to select and replace the partners we work with based on students’ feedback and satisfaction.

At our Saintach Tutorial Centers, we currently offer face-to-face individual or small-group tutoring for primary school, middle school and high school students. Going forward, we intend to increase the percentage of small-group tutoring services we provide which incur relatively lower staff costs and yield higher profit margins than one-on-one tutoring. We also plan to develop more intensive exam preparatory courses targeting students in 9th and 12th grades preparing for the Zhongkao and the Gaokao, respectively.

In addition, we plan to expand the service offerings of our Saintach Tutorial Centers and Saintach Kindergartens to include a variety of special interest classes and extra-curricular activities targeting children aged between three to 12 in Shijiazhuang. Such services would allow us to target primary school and kindergarten students who generally have more out-of-school time than middle school and high school students. We plan to undertake the following major steps to launch our initiatives to promote such services in Shijiazhuang, including: (i) conducting thorough market research; (ii) retaining high-quality teaching staff and seasoned management personnel in the field; and (iii) partnering with public and private primary schools to develop suitable courses.

We also plan to provide management support services to third party operators and/or investors in the Integrated Area who are interested in establishing and/or operating kindergartens without using our brand. Such services would take the form of professional training, consulting and guidance involving various aspects relating to the establishment and operation of new kindergartens, including, among others, site selection, feasibility studies, curriculum formulation and implementation, and student recruitment strategies. In connection with such services, we will encourage these third party kindergartens to purchase and use our course and teaching materials. To help improve the professional skills of teachers in the third party kindergartens, we also plan to provide a series of teacher training services, such as pre-employment training for new teaching staff and continuing training on teaching theories and methodologies based on our course system and standardized operating model. As of the Latest Practicable Date, we had entered into consulting service agreements with 10 potential individual investors looking to invest in the kindergarten market. Please see “– Our Schools – Saintach Kindergartens – Additional Services” in this section for details.

Enhance our profitability by optimizing our pricing ability and increase student enrollment at our schools

According to the Frost & Sullivan Report, tuition and miscellaneous fees for private schools are typically higher than those for public schools. As we tried to gain more market shares and remain competitive in the markets in which we operate, tuition at our kindergartens and Shijiazhuang Institute of Technology for the 2014-2015, 2015-2016, 2016-2017 and 2017-2018 school years and at our tutorial centers for the years ended December 31, 2015, 2016 and 2017 were relatively lower than the average tuition charged by top-tier private schools and peer after-school tutoring service providers in China. Nevertheless, we believe the effective operating and management approach we have developed and the strong reputation we have established for providing quality education to our students will allow us to raise our tuition with a view to enhancing our profitability without compromising our ability to attract and retain students. As such, as part of our strategy to increase the profitability of our schools and tutorial centers and subject to approval or filing with the relevant PRC regulatory authorities, we plan to explore further opportunities to increase our tuition in the future while continuing to enhance our reputation. We also plan to target higher disposable income markets when determining location for expansion, which we believe will allow us to optimize our pricing ability. In addition, we intend to increase our student capacity and enrollment by acquiring new kindergartens and tutorial centers in the Integrated Area. Please see “– Expand our network and increase our market penetration in the Integrated Area, and strengthen our brand and reputation” in this section for details.

Support the professional development of our teachers to improve their teaching quality and skills

As an education service provider, the quality of our teachers is crucial to our providing high-quality education services. In order to maintain the high quality of our education services, we continue to recruit new qualified teachers and invest in current teachers by offering continuing training to help improve their teaching techniques and general professional skills, as well as provide career advancement opportunities.

At Shijiazhuang Institute of Technology, we will continue to apply stringent standards in our recruitment of teachers, including targeting applicants who have obtained a master's degree or above from top universities in China and abroad and requiring all new teachers to obtain necessary teaching qualifications. We plan to recruit well-recognized technical and engineering experts, experienced business administrators and other highly skilled persons to teach and work in our schools on either a full-time or a part-time basis for purposes of improving the quality of our simulation-based training programs for students. We also plan to hire more professors from other higher educational institutions with significant experience to serve in academic leadership roles at our school. In addition, we encourage all our teachers to pursue further studies and gain more practical experience in order to enhance their professional expertise and knowledge.

At Saintach Tutorial Centers, we intend to provide our teachers with training sessions that primarily aim at helping them understand changing market demand, student preferences and other trends and improve their customer communication skills. To encourage the teachers at our Saintach Tutorial Centers to continuously improve their teaching quality, we also intend to adopt more rigorous performance-based and differentiated compensation schemes which will be closely linked to students' academic achievements and satisfaction, internal evaluations of the teachers' preparation, and effectiveness of their course delivery.

At Saintach Kindergartens, we have historically provided our teachers with regular professional training relating to our curriculum system, teaching concepts and philosophy during the Track Record Period. Going forward, we plan to offer additional training programs to improve their research and development capabilities and to keep them abreast with the latest teaching theories and methodologies.

Strengthen international cooperation with overseas educational institutions and build our presence overseas

As of the Latest Practicable Date, Shijiazhuang Institute of Technology had entered into cooperation agreements and/or memoranda of understanding with six overseas higher educational institutions in Canada, the US and the United Kingdom to facilitate the admission process and/or to establish exchange or joint-degree programs for prospective Chinese students who wish to study abroad. We believe that the cooperative arrangements can help overseas higher educational institutions familiarize themselves with our school and recruit high-quality Chinese students we selected to enroll in their programs. Please see “– Our Schools – Shijiazhuang Institute of Technology – Junior College Programs” in this section for details. Going forward, we intend to continue to extend our collaboration with other foreign educational institutions to provide access to overseas education for more students at Shijiazhuang Institute of Technology.

In addition, with the aim of building our presence overseas and obtaining operational experience from abroad, we plan to establish and operate an officially accredited residential university authorized to grant master's degree in business administration and bachelor's degree in computer science in the state of California, the United States. On December 17, 2016, we entered into a consulting agreement with an international education consultant, who is an Independent Third Party with extensive experience in the sector of private post-secondary education in the state of California. The consultant formulated a business plan regarding establishment of an entity which we will use to operate our proposed university in the state of California and will provide assistance to initiate and implement the key elements of the plan. Pursuant to the business plan, we have established the proposed entity named “Los Angeles Sainange Institute of Technology” on January 17, 2017. In addition, on September 28, 2017, we also engaged legal counsel in the United States for advice on matters relating to the establishment of the new university. For details of the regulatory environment in the state of California for the operation of a university, please see “Regulatory Overview – Regulations on Private Postsecondary Education in the State of California” in this

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prospectus. We submitted a formal application regarding establishment of the proposed university to the BPPE on August 10, 2017 and the approval process is expected to be completed within approximately 18 months from the date of application. We are in the process of searching for appropriate school premises as well as suitable and experienced management for the operation of the new university, with assistance from the consultant. We plan to employ an experienced principal and recruit qualified teachers and administrative staff in the United States, as well as dispatch prominent teachers from Shijiazhuang Institute of Technology for the daily operation and management of the new university. In addition to marketing and promotion in the United States to attract local students and strengthen our market recognition, we also plan to set up exchange programs domestically for students of Shijiazhuang Institute of Technology and other higher education institutions in China. We will provide funding for establishing the proposed university by allocating up to US\$3.93 million (approximately HK\$30.8 million) from the proceeds of the Global Offering for this purpose. We had incurred approximately US\$28,000 (approximately HK\$220,000) in expenses in connection with our plan as of the Latest Practicable Date. Based on the following factors, we do not expect expenses we incur in establishing the university in California or ongoing expenses relating to the operation of such university will have a material adverse impact on our overall cost structure and financial results: (i) most of costs arising from the establishment of our university in California will be capitalized and thus will not have a material adverse impact on our overall profitability throughout its establishment period; (ii) after its establishment, it is planned that initial student enrollment at our university in California will be approximately 40 students and we will recruit three to four teaching staff for the first year of operation. We estimate that the university will progress to a mature stage after operating for six to eight years, at which point the estimated total student enrollment will be approximately 250 students with total teaching staff of around 20 to 25 persons. Moreover, we expect total capacity of our university in California to support up to 800 students with a teaching staff of 75 to 80 teachers, which is much smaller than the current scale of operation of our Shijiazhuang Institute of Technology; and (iii) we will utilize 10% of the net proceeds from the Global Offering for establishing our presence overseas and obtaining experience in operating schools abroad, which will fully satisfy the needs of establishment and operation of our university in California and thus the sufficiency of our working capital will not be impacted.

The following table sets forth the details of our investment plan in relation to the establishment of our proposed university in California.

Expected Student Capacity	Details of Investment Plan	Expected Total Investment	Amount Incurred as of the Latest Practicable Date	Remaining Portion of Expected Total Investment	Source of Funding	Expected Payback Period ⁽¹⁾	Expected Investment Return ⁽²⁾
Approximately 800 students	Establishment of the university	HK\$11.9 million	US\$28,000 (equivalent to approximately HK\$220,000)	The remaining portion of the expected total investment of approximately HK\$30.6 million is expected to incur in the period from 2018 to 2020.	Net proceeds from the Global Offering	Six to eight years after the commencement of operations of the proposed university in California	Approximately 15%
	Teacher recruitment and educational research	HK\$9.1 million					
	Daily operations and management	HK\$6.3 million					
	Marketing and promotion	HK\$3.5 million					
	Total	HK\$30.8 million	US\$28,000 (equivalent to approximately HK\$220,000)				

Notes:

- (1) Expected payback period refers to the period of time required to recover our expected total investment. It is the period of time during which the total future net cash flow generated from operating activities equals to the expected total investment.
- (2) Expected investment return refers to the estimated internal rate of return of discounting (a) the university's future net cash flow from operating activities; and (b) the Group's total investment in the university, to its present value.

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In addition, we plan to set aside a reserve fund of approximately HK\$1.0 million from the proceeds of the Global Offering to cover any additional expenses arising in connection with the establishment and on-going operation of the university, such as expenses related to maintenance, renovation and upgrading of the facilities, equipment and infrastructure of the university and scholarships used to reward student excellence, as well as any further research and development that may become necessary in relation to establishing and operating the university.

OUR EDUCATIONAL PHILOSOPHY

Our fundamental educational philosophy is that learning is a lifelong process and we should be as inclusive as possible to provide education programs that may interest our students from toddlers to seniors. We focus on nurturing the all-round development of our students while they are young, equipping students with practicable skills that meet the needs of our society when they become young adults, and developing continuing education for older adults and working professionals for them to obtain new skills and knowledge.

OUR SCHOOLS

Overview

As of the Latest Practicable Date, we operated a total of 15 schools located in Shijiazhuang, Hebei Province, including one private college (Shijiazhuang Institute of Technology), six Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and eight Saintach Kindergartens, through which we offer comprehensive education and tutorial programs for students from kindergarten to college.

Our schools have a variety of campus facilities which may include classrooms, administrative offices, conference halls, dormitories, multimedia rooms, gymnasiums, outdoor playing fields, sports courts (such as basketball, volleyball, tennis, and/or soccer courts), libraries, laboratories, psychology consultation room, cafeterias and staff apartments depending on the type of school and location.

As of December 31, 2017, we had an aggregate of approximately 19,181 students formally enrolled in our schools, including approximately 11,096 full-time and 6,260 part-time students at Shijiazhuang Institute of Technology and approximately 1,585 students at our Saintach Kindergartens. In addition, in the year ended December 31, 2017, we delivered a total of approximately 367,752 Tutoring Hours (representing 4,928 students tutored) at our Saintach Tutorial Centers. As of December 31, 2017, we had an aggregate of approximately 1,830 teachers and staff at our schools and tutorial centers.

Student Enrollment and Capacity

During the course of our operation, we have benefited from PRC national and local government policies and initiatives that encourage and support the development of private education in China. We have experienced growth since the establishment of Shijiazhuang Institute of Technology, our first school in 2003 and throughout the Track Record Period. The following table sets forth information relating to the approximate student enrollment, student capacity and utilization rates of our schools (not including Saintach Tutorial Centers) during the periods indicated:

	Student Enrollment ⁽¹⁾				Student Capacity ⁽²⁾				Utilization Rate % ⁽³⁾			
	School Year				School Year				School Year			
	2014-2015	2015-2016	2016-2017	2017-2018 ⁽⁵⁾	2014-2015	2015-2016	2016-2017	2017-2018 ⁽⁵⁾	2014-2015	2015-2016	2016-2017	2017-2018 ⁽⁵⁾
Full-time Students												
Shijiazhuang Institute of Technology												
Junior college program	7,692	7,581	8,647	9,198	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾
Secondary vocational education program	98	332	1,275	1,898	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾
Subtotal (full-time college students)	7,790	7,913	9,922	11,096	11,328	11,328	11,328	11,328	68.8	69.9	87.6	98.0
Saintach Kindergartens	2,368	1,656	1,756	1,825	2,838	1,757	1,856	1,856	83.4	94.3	94.6	98.3
Subtotal (full-time students)	10,158	9,569	11,678	12,921	14,166	13,085	13,184	13,184	71.7	73.1	88.6	98.0
Part-time Students												
Shijiazhuang Institute of Technology												
Continuing education programs	1,755	1,613	3,142	6,260								
Subtotal (part-time students)	1,755	1,613	3,142	6,260								
Total	11,913	11,182	14,820	19,181								

Notes:

- (1) The student enrollment information during the Track Record Period was based on the official records of the relevant PRC education authorities and the internal records of our schools. Despite the fact that our financial year ends on December 31, our school year generally ends on June 30 or in early July. For consistency purposes, we use June 30 as the end of a school year to present our business operating data in this prospectus.
- (2) Shijiazhuang Institute of Technology is a boarding school. The student capacity of Shijiazhuang Institute of Technology is calculated based on (i) the approximate number of beds available to full-time junior college and secondary vocational school students in student dormitories according to its internal records and calculations, and (ii) in case of the junior college program, the number of full-time junior college students Shijiazhuang Institute of Technology is allowed to admit for each school year according to the student recruitment plan issued by the local PRC education bureau.

The student capacity of our Saintach Kindergartens is calculated based on the class sizes (typically limited to 20 to 30 students per class according to different categories of our kindergarten classes) and number of classes available at each kindergarten. The number of classes available at each of our kindergarten is dependent upon the layout and the floor space of each school.

- (3) Utilization rates are calculated by dividing the number of full-time students enrolled by the student capacity.
- (4) Separate student capacity and utilization rates for each of the junior college and secondary vocational education programs are not available as students enrolled in such programs shared the same student housing facilities.
- (5) Student enrollment, student capacity and utilization rate for the 2017-2018 school year were for the period from July 1, 2017 to December 31, 2017.

Our Directors do not believe student capacity and utilization rates relating to part-time students of Shijiazhuang Institute of Technology are meaningful, particularly as such part-time students can study remotely and need not necessarily study and/or reside on campus. Capacity and utilization rates listed above and in this section for Shijiazhuang Institute of Technology and our Group as a whole only relate to full-time students.

The utilization rate for Shijiazhuang Institute of Technology remained relatively stable at 68.8% and 69.9%, respectively, in the 2014-2015 and 2015-2016 school years. The utilization rate then grew significantly from 69.9% in the 2015-2016 school year to 87.6% in the 2016-2017 school year, and further to 98.0% in the 2017-2018 school year, primarily reflecting an increase in the number of full-time students, in particular, secondary vocational school students, enrolled at Shijiazhuang Institute of Technology. The increase in student enrollment was primarily attributable to our enhanced marketing and recruitment efforts and the establishment in January 2016 of the College for General Education (通識教育學院), a new school within the Shijiazhuang Institute of Technology which admits and houses secondary vocational school students in response to increased demand for our secondary vocational education services. Please see “– Shijiazhuang Institute of Technology – Secondary Vocational Education Program” in this section for details.

The utilization rate for our Saintach Kindergartens was 83.4%, 94.3% and 94.6% and 98.3%, respectively, in the 2014-2015, 2015-2016, 2016-2017 and 2017-2018 school years. Our Saintach Kindergartens achieved almost full school utilization in the 2017-2018 school year primarily due to increased demand for our education services. In response to such increased demand, we plan to expand our network of Saintach Kindergartens in the Integrated Area through acquiring and rebranding additional kindergartens operated by third party school operators. Please see “– Our Business Strategies” in this section for details.

BUSINESS

Our Saintach Tutorial Centers provide tutorial courses primarily on a one-on-one basis and, to a lesser extent, in small groups consisting of two to 15 students. The total number of Tutoring Hours delivered through individual one-on-one tutoring accounted for approximately 73.4%, 76.4% and 72.8%, respectively, of the total Tutoring Hours we delivered for the years ended December 31, 2015, 2016 and 2017. The following chart sets forth information related to Tutoring Hours and enrollment at our Saintach Tutorial Centers for the six month periods ended June 30 and December 31, 2015, 2016 and 2017, respectively, as well as the full years ended December 31, 2015, 2016 and 2017:

Tutoring Hours and Student Enrollment						
Six month period ended						
	June 30, 2015	December 31, 2015	June 30, 2016	December 31, 2016	June 30, 2017	December 31, 2017
Saintach Tutorial Centers						
Number of Tutoring Hours delivered ⁽¹⁾	169,799	159,836	181,502	156,089	185,180	182,572
Number of students tutored . .	1,799	1,911	1,951	2,157	2,250	2,678
Number of Tutoring Hours delivered per student	94.4	83.6	93.0	72.4	82.3	68.2

Note:

- (1) Equivalent to number of Tutoring Hours our tutors delivered to students. One hour delivered to a group of students is still expressed herein as only one hour.

Tutoring Hours and Student Enrollment			
Year ended December 31,			
	2015	2016	2017
Saintach Tutorial Centers			
Number of Tutoring Hours delivered ⁽¹⁾	329,635	337,591	367,752
Number of students tutored	3,710	4,108	4,928
Number of Tutoring Hours delivered per student . .	88.9	82.2	74.6

Note:

- (1) Equivalent to number of Tutoring Hours our tutors delivered to students. One hour delivered to a group of students is still expressed herein as only one hour.

The decline in our number of Tutoring Hours delivered per student during the three full years ended December 31, 2015, 2016 and 2017 was due primarily to significant increases in the number of students tutored, much of which increases occur in the second half of the calendar year after the new school year has started, while the majority of tutoring hours delivered to, and revenue from, such new students typically comes in the first half of the following year, where there is more demand for tutoring services in advance of Gaokao and Zhongkao in the first half of a calendar year. Although the total Tutoring Hours delivered in the calendar years ended December 31, 2015, 2016 and 2017 increased, such increase was outpaced by the increase in number of students. As a result of the continuing increase in number of students during the Track Record Period and the difference in timing between when our tutored students first join us and when they receive most of their tutoring, as explained above, there was a decline in number of Tutoring Hours delivered per student during the calendar years ended December 31, 2015, 2016 and 2017.

Tuition and Boarding Fees

We typically charge our students fees comprising tuition (including tutoring fees) and, at our Shijiazhuang Institute of Technology, boarding fees. For our Saintach Kindergartens, tuition is paid on a monthly basis in advance at the beginning of each month of the academic year and recognized upon the completion of the education services for the month. For our Saintach Tutorial Centers, tuition is charged based on the number of Tutoring Hours to be taken by students and the type of class and is generally required to be paid in a lump sum after signing of the relevant service contracts and prior to the commencement of the first tutoring session. We require our students to pay tuition and boarding fees at Shijiazhuang Institute of Technology for the entire school year prior to the beginning of the school year, and recognize revenue proportionately over the course of the relevant period of the applicable program. Please see “Financial Information – Critical Accounting Policies, Judgments and Estimates – Revenue Recognition” in this prospectus for details. For the years ended December 31, 2015, 2016 and 2017, tuition from all of our schools and tutorial centers accounted for 80.8%, 79.5% and 78.8% of our total revenue, respectively.

We generally review and adjust the tuition (including tutoring fees) rates of our schools and tutorial centers annually subject to prevailing market conditions. We typically adjust the tuition rates for one-third of the majors we offer at Shijiazhuang Institute of Technology each year based on market conditions. The tuition rates are determined by the general office of Shijiazhuang Institute of Technology and submitted for review and approval by the management team of the school. In addition, tuition rates for Shijiazhuang Institute of Technology are also subject to approval by the provincial-level government pricing authority in Hebei Province. Tuition rates with respect to students at the west campus of Sifang College are determined by Sifang College and the subject to approval by the provincial-level government pricing authority in Hebei Province. We adopt the tuition rates determined by Sifang College and, accordingly, we are not responsible for determining the tuition rates. At Saintach Tutorial Centers, tutoring fees for different types of tutorial programs and subjects are determined by the marketing department of Shijiazhuang Saintach and submitted for final approval by the General Manager of Shijiazhuang Saintach. At Saintach Kindergartens, tuition rates are determined by the marketing department and submitted for final approval by the management team of Hebei Saintach. Tuition rates for Saintach Tutorial Centers and Saintach Kindergartens need to be filed with the relevant government pricing authorities in the locations where we operate. Please see “Regulatory Overview” in this prospectus for details of tuition regulations in China.

Our Saintach Tutorial Centers generally experience an increase in revenue in the second quarter of each year as students choose to receive more tutoring prior to the Zhongkao and the Gaokao which normally occur in June. Our Saintach Kindergartens generally experience a decrease in revenue in the first and third quarters of each year. This decrease is primarily due to a decrease in the amount of tuition received as a result of insufficient student attendance during the Chinese New Year period and the summer holidays. Accordingly, we have experienced, and expect to continue to experience, seasonal fluctuations in our results of operations, primarily due to seasonal changes in student enrollment.

BUSINESS

The following table sets forth the range of tuition for our schools (not including Saintach Tutorial Centers) for the 2014-2015, 2015-2016, 2016-2017 and 2017-2018 school years:

School	Tuition			
	2014-2015 school year	2015-2016 school year	2016-2017 school year	2017-2018 school year
Shijiazhuang Institute of Technology				
Junior college	RMB5,000-RMB8,000	RMB5,000-RMB8,000	RMB5,500-RMB10,000	RMB5,500-RMB10,000
program	per school year	per school year	per school year	per school year
Secondary vocational	RMB3,000	RMB3,000	RMB4,000	RMB4,000
education	per school year	per school year	per school year	per school year
program				
Continuing education				
programs				
Remote online	RMB5,700-RMB6,150	RMB5,850-RMB6,150	RMB4,745-RMB12,800	RMB4,745-RMB12,800
learning	per program	per program	per program	per program
programs				
Adult education	RMB700-RMB1,500	RMB700-RMB1,500	RMB700-RMB1,500	RMB700-RMB1,500
programs	per school year	per school year	per school year	per school year
Self-study	RMB4,800-RMB5,385	RMB4,800-RMB5,385	N/A	N/A
program	per school year	per school year		
Saintach	RMB720-RMB2,000	RMB765-RMB2,180	RMB980-RMB2,280	RMB980-RMB2,280
Kindergartens	per month	per month	per month	per month

The tuition range for Shijiazhuang Institute of Technology reflects different tuition for the different majors we offer under different education programs and does not include boarding fees for full-time students. Such boarding fees ranged from RMB600 to RMB800 per school year for each of the 2014-2015 and 2015-2016 school years, and from RMB600 to RMB1,200 per school year for each of the 2016-2017 and 2017-2018 school years. Tuition rates may vary depending on the following factors: our operating cost, popularity of a major and/or program, approval by the competent education authorities, student enrollment and market conditions. The tuition range for Saintach Kindergartens reflects the tuition of different types of kindergarten classes we provide. Tuition rates may vary depending on the following factors: our operating cost, class size, popularity of our kindergarten programs, location of a kindergarten, student enrollment and market conditions. As is common across the industry, changes to tuition rates at Shijiazhuang Institute of Technology and Saintach Kindergartens are only applicable to new students while existing students continue to pay the same rates that were in effect when they were admitted.

Our tuition rates at Shijiazhuang Institute of Technology and Saintach Kindergartens remained relatively stable during the Track Record Period, except for the level of tuition for our remote online learning programs offered at Shijiazhuang Institute of Technology which increased significantly from the 2015-2016 school year to 2016-2017 school year due to the addition of new majors charging higher tuition rates as a result of our collaboration with a Beijing-based public university known for media and communication studies. We plan to increase our tuition in the future while continuing to enhance our reputation and improve the quality of our education services. Please see “– Our Business Strategies – Enhance our profitability by optimizing our pricing ability and increase student enrollment at our schools” in this section for details.

Shijiazhuang Institute of Technology stopped enrolling students in its self-study program in the 2016-2017 school year due to decreased student demand for such program as the relevant education authority increased the difficulty of the examinations required to complete such program in January 2015. Please see “– Shijiazhuang Institute of Technology – Continuing Education Programs – Self-study Program” in this section for details.

BUSINESS

The following table sets forth the range of tutoring fees for our tutorial centers for the years ended December 31, 2015, 2016 and 2017:

	Tutoring fees		
	Year ended December 31,		
	2015	2016	2017
Saintach Tutorial Centers	RMB65-RMB200 per Tutoring Hour	RMB65-RMB210 per Tutoring Hour	RMB90-RMB230 per Tutoring Hour

Tutoring fee range for Saintach Tutorial Centers represents the tutoring fees per Tutoring Hour for students. Tutoring fees for high school students are generally higher than those for middle school and primary school students. Tutoring fee rates may vary depending on the following factors: our operating cost, reputation of a teacher, grade levels of students, popularity of our tutorial programs, location of a tutorial center, student enrollment and market conditions. Tutoring fees listed above are with respect to individual “one-on-one” tutoring. Such individual classes accounted for approximately 73.4%, 76.4% and 72.8%, respectively, of the total number of Tutoring Hours we delivered for the years ended December 31, 2015, 2016 and 2017. Our tutoring fee rates at Saintach Tutorial Centers remained relatively stable during the Track Record Period.

The following table sets forth our average revenue per full-time student for each type of school (other than Saintach Tutorial Centers, which only have part-time students) for periods indicated below:

<u>School</u>	Average revenue per student ⁽¹⁾		
	Year ended December 31,		
	2015	2016	2017
	(RMB)	(RMB)	(RMB)
Shijiazhuang Institute of Technology	5,835	5,525	5,595
Junior college program	5,926	5,814	5,918
Secondary vocational education program	2,600	2,602	3,779
Saintach Kindergartens	17,030	14,411	16,150

Notes:

- (1) The average revenue per full-time student is calculated by dividing the revenue generated from tuition for a fiscal year by the average number of students enrolled as of the beginning and the end of the same year.

The decrease in the average revenue per student of Shijiazhuang Institute of Technology for the year ended December 31, 2016 was primarily caused by an increase in the number of students enrolled in our secondary vocational education program from the 2015-2016 school year to the 2016-2017 school year, which had a comparatively lower tuition range.

The decrease in the average revenue per student of junior college program for the year ended December 31, 2016 was caused by an increase in the number of students enrolled in programs with comparatively lower tuition.

The significant decrease in the average revenue per student of our Saintach Kindergarten for the year ended December 31, 2016 was because we disposed of five Saintach Kindergartens in January 2016, resulting in a decrease in revenue for the year ended December 31, 2016, while the students enrolled by such five Saintach Kindergartens at the beginning of 2016 was still used in calculating the average number of students.

For Saintach Tutorial Centers, our average revenue per Tutoring Hour for the years ended December 31, 2015, 2016 and 2017 amounted to RMB118.2, RMB126.0 and RMB125.0, respectively. The average revenue per Tutoring Hour is calculated by dividing the revenue generated from tutoring fees for a fiscal year by the total number of Tutoring Hours delivered in the same year. Our average revenue per student tutored for the years ended December 31, 2015, 2016 and 2017 amounted to RMB10,505, RMB10,357 and RMB9,329, respectively. The decrease in average revenue per student tutored over the period is due primarily to significant increases in the number of students tutored, much of which increases occur in the second half of the calendar year after the new school year has started, while the majority of tutoring hours delivered to, and revenue from, such new students typically comes in the first half of the following year, where there is more demand for tutoring services in advance of Gaokao and Zhongkao in the first half of a calendar year. Although the total revenue recorded in the calendar years ended December 31, 2015, 2016 and 2017 increased, such increase was outpaced by the increase in number of students. As a result of the continuing increase in number of students during the Track Record Period and the difference in timing between when our tutored students first join us and when they receive most of their tutoring, as explained above, there was a decline in the average revenue per student during the calendar years ended December 31, 2015, 2016 and 2017.

Student Withdrawals and Refund

In the event a student withdraws from our schools or tutorial centers before the end of a school year or a registered tutorial course, as applicable, we offer refunds to such student pursuant to the refund policies we have in place at each of our schools and tutorial centers, which are set forth below:

- *Shijiazhuang Institute of Technology*: If a student pays tuition and boarding fees in advance and decides to withdraw prior to the beginning of a school year, we will refund the total amount of tuition and boarding fees paid. If a student leaves on or before the tenth day of a school year, we will deduct an administrative charge amounting to RMB25 per day based on the actual number of days such student is enrolled at the school, and refund the remaining tuition and boarding fees paid. If a student leaves at any other time during a school year, we will refund an amount of tuition and boarding fees that reflects the number of months such student is enrolled during that school year, calculated on the basis that one school year lasts 10 months.
- *Saintach Tutorial Centers*: If a student leaves before completing a tutorial course package, we will deduct the prepaid service charges and an amount of tutoring fees that reflects the number of tutoring sessions already delivered, and refund the remaining tutoring fees paid.
- *Saintach Kindergartens*: Tuition is typically paid in advance at the beginning of each calendar month. If a student is absent for more than 10 school days in a calendar month, we will refund half of the monthly tuition that has been paid. If the student is absent for not more than 10 school days in a calendar month, no refund will be made for that month.

BUSINESS

The following table sets out the number of students who withdrew (or were expelled) from Shijiazhuang Institute of Technology for the school years indicated:

<u>School</u>	<u>Number of students that withdrew (including those expelled)</u>							
	<u>School Year</u>							
	<u>2014-2015</u>	<u>% of total students</u>	<u>2015-2016</u>	<u>% of total students</u>	<u>2016-2017</u>	<u>% of total students</u>	<u>2017-2018</u>	<u>% of total students</u>
Shijiazhuang Institute of Technology ⁽¹⁾ . . .	143	1.8%	120	1.5%	321	3.2%	234	2.1%

Note:

(1) The number of students who dropped out of Shijiazhuang Institute of Technology is with respect to full-time students only.

In the years ended December 31, 2015, 2016 and 2017, the number of students who withdrew from our Saintach Tutorial Centers was 12, 20 and 19, respectively. Over the same periods, the number of students who withdrew from our Saintach Kindergartens was 62, 67 and 13, respectively.

The table below sets forth the amount of tuition refunded to students who withdrew in the periods indicated:

<u>School</u>	<u>Tuition refunded</u>		
	<u>Year ended December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<u>(RMB'000)</u>	<u>(RMB'000)</u>	<u>(RMB'000)</u>
Shijiazhuang Institute of Technology	302	592	816
Saintach Tutorial Centers	63	134	52
Saintach Kindergartens	12	26	3
Total	377	751	871

Shijiazhuang Institute of Technology

Overview

We established Shijiazhuang United Technology Vocational College (石家莊聯合技術職業學院), the predecessor of Shijiazhuang Institute of Technology in July 2003 as a privately-funded college-level educational institution in Shijiazhuang, Hebei Province. Shijiazhuang Institute of Technology offers junior college education covering a total of 69 majors through eight departments and has two separate schools dedicated to secondary vocational education and continuing education, respectively. Shijiazhuang Institute of Technology also offers a variety of ancillary education services, including skill-oriented professional training services and college operation services provided to the west campus of Sifang College.

The educational philosophy of Shijiazhuang Institute of Technology is to encourage students both to pursue knowledge as an end in itself and to learn to put their knowledge into useful practice. We focus on equipping our students with practical and readily-useable skills with emphasis on actual business needs and market demands. The prestige of Shijiazhuang Institute of Technology is apparent from the fact that the school has been appointed as a “Vice Minister Member” (副部長單位) of the Senior Vocational Education Division of the Higher Education Professional Committee of China’s Non-government Education Association* (中國民辦教育協會高等教育專業委員會高職工作部) from March 2014 to March 2019 and from the various awards it has received, such as its recognition as a Top 100 Model Private Higher Educational Institution for Employment* (中國民辦高校就業示範100強) in 2010. Please see “— Awards and Recognition” in this section for further details.

As of December 31, 2017, Shijiazhuang Institute of Technology had a total of approximately 11,096 full-time students enrolled in junior college and secondary vocational education programs, approximately 6,260 part-time students enrolled in continuing education programs, and approximately 604 teachers and staff (including 118 part-time teachers). As of December 31, 2017, the school occupied premises with a gross site area of approximately 284,459 sq.m. The school has a variety of campus facilities, including teaching buildings, a school library, sports courts, student dormitories, canteens, administrative offices and staff apartments. Shijiazhuang Institute of Technology is open to PRC citizens and generally recruits students nationwide. As of that date, approximately 71.5% of the students came from Hebei Province with the remainder coming from other locations in the PRC.

The following pictures show several aspects of the Shijiazhuang Institute of Technology campus:



BUSINESS

Curriculum and Diplomas

Shijiazhuang Institute of Technology currently offers junior college diplomas and secondary vocational school diplomas recognized by the MOE to full-time students. We also provide a range of part-time continuing education programs at our Open Education College (開放教育學院), including remote online learning programs, adult education programs and a self-study program. We believe our continuing education programs are particularly attractive to part-time students who are employed and who wish to upgrade their academic degrees while continuing to work. Please see “– Continuing Education Programs” in this section for details.

The following table sets forth the number of our students who participated in full-time junior college and secondary vocational education programs and part-time continuing education programs offered by Shijiazhuang Institute of Technology for the school years indicated:

	Number of students			
	School Year			
	2014-2015	2015-2016	2016-2017	2017-2018
Junior college program (full-time)	7,692	7,581	8,647	9,198
Secondary vocational education program (full-time)	98	332	1,275	1,898
Subtotal (full-time students)	7,790	7,913	9,922	11,096
Continuing education programs (part-time)				
<i>Remote online learning programs</i>	1,403	1,355	2,275	3,837
<i>Adult education programs</i>	193	204	867	2,423
<i>Self-study program</i>	159	54	–	–
Subtotal (part-time students)	1,755	1,613	3,142	6,260
Total	9,545	9,526	13,064	17,356

The number of students enrolled in our secondary vocational education program grew significantly from 332 in the 2015-2016 school year to 1,275 in the 2016-2017 school year, and further to 1,898 in the 2017-2018 school year, primarily due to our enhanced marketing and recruitment efforts and the establishment of the College for General Education in January 2016, a new school within the Shijiazhuang Institute of Technology which admits and houses secondary vocational school students in response to increased demand for our secondary vocational education services. Please see “– Shijiazhuang Institute of Technology – Secondary Vocational Education Program” in this section for details.

The number of part-time students enrolled at Shijiazhuang Institute of Technology grew significantly from 1,613 in the 2015-2016 school year to 3,142 in the 2016-2017 school year, and further to 6,260 in the 2017-2018 school year, primarily attributable to (i) the addition of a new remote online learning center we established in September 2016 together with a Beijing-based public university known for media and communication studies, and (ii) our efforts in strengthening our collaboration with Hebei University to attract more students to enroll in our adult education programs. The number of students enrolled in our self-study program has been steadily decreasing over the Track Record Period as a result of decreased student demand after the relevant education authority increased the difficulty of the examinations required to complete such program in January 2015. As a result, Shijiazhuang Institute of Technology stopped enrolling students in its self-study program in the 2016-2017 school year. Please see “– Shijiazhuang Institute of Technology – Continuing Education Programs” in this section for details.

Junior College Program

The junior college program forms the core of Shijiazhuang Institute of Technology's course offerings and approximately 82.9% of the school's full-time students were enrolled in this program as of December 31, 2017. Shijiazhuang Institute of Technology offers junior college diplomas for a total of 69 majors in the areas of architecture, manufacturing and automation, automotive engineering, economics and management, information technology, nursing and health management, arts and media, and traffic engineering. The curriculum for each major includes core mandatory courses selected from the syllabus designed by the MOE for junior college students and major-related elective courses which are specifically tailored to the respective educational objectives and characteristics of different majors, including up-to-date skills required by employers given the latest market trends. We believe our broad range of employment-oriented curriculums allows us to equip our students with the necessary skills and knowledge to meet the market demand in a wide variety of industry sectors.

Student Cultivation and Graduation

We aspire to help our students develop into academically excellent and well-rounded individuals equipped with useful, real-life skills. To achieve this goal, we have designed and implemented a coherent educational system for cultivating our students, the TOP System, to help improve the academic performance, employability, job-seeking skills and personal development of students at Shijiazhuang Institute of Technology. Our TOP System focuses on the following distinct aspects of student development:

- *Technique:* This element aims to help students develop and acquire the necessary professional and technical skills through their studies. To this end, we offer students a wide range of simulation-based training programs and internship opportunities through collaboration with a number of industry partners, in addition to the traditional in-class instructions. Please see “– Junior College Program – Simulation Training Programs Established in Collaboration with Industry Partners” for details.
- *Occupation:* As a private higher education service provider, we consider students' employability skills as a key aspect of talent cultivation. We provide students with multiple sources of career development support, including career guidance, career planning courses and experience sharing sessions on career development and professional ethics, to help improve their job-seeking skills and locate suitable employment opportunities.
- *Personality:* We believe it is important for our students to possess strong interpersonal skills and social awareness in order to engage in a broader social community. As such, we promote learning through social practices and encourage students to actively participate in various extracurricular activities, such as outward bound training programs, arts festivals and the World Earth Day activities.

The success of Shijiazhuang Institute of Technology's real-life practical focus, reinforced by our TOP System, is illustrated by the high job placement of its graduates with approximately 91.7%, 92.2% and 91.6% of the total junior college students graduating in June 2015, 2016 and 2017, respectively, having found employment by the end of the year in which they graduated.

Simulation Training Programs Established in Collaboration with Industry Partners

We believe actual hands-on experience is a critical part of ensuring that our students are equipped with the practical skills they need upon graduation. In order to give our students opportunities to gain a deeper understanding of their fields of interest and build up practical experience, we have established meaningful industry connections and attracted a large number of industry partners to establish a variety of simulation-based training programs since January 2015. Such programs are held either on our school premises or on the premises of these industry partners.

As of December 31, 2017, we had entered into 50 cooperation agreements with 44 third party partners, including Fortune 500 companies in China, as well as other vocational training institutions regarding the establishment of practical, hands-on training programs that make use of simulated work environments to ensure skills learned by students are of immediate practical use in the workplace. As of December 31, 2017, such programs were available to approximately two-thirds of the majors offered at Shijiazhuang Institute of Technology.

The practical, simulation-based training programs are primarily implemented through cooperative teaching programs at dedicated training bases. Our Shijiazhuang Institute of Technology works with industry partners to formulate practical curriculums. Students admitted to such programs receive training directly in line with our industry partners' requirements and practical needs. Our teaching faculty and key technical training personnel from industry partners jointly carry out the teaching assignments. In addition, a majority of these industry partners will help us establish on-or off-campus training bases to provide opportunities for our students to participate in simulation training programs and/or major-related internships. Such training bases aim to provide students with a simulated work environment to ensure the seamless connection between school studies and work requirements. Some companies also invest in technology and equipment at our school to ensure that our teaching facilities can keep abreast of latest technological trends.

To ensure the quality of our simulation training programs, we set high standards in selecting industry partners for Shijiazhuang Institute of Technology. Our primary selection criteria include: (i) brand image and reputation; (ii) amount of resources, commitment in or donation to Shijiazhuang Institute of Technology; (iii) ability to provide high-quality training or internship programs; (iv) amount of scholarships and sponsorships granted to our students; and (v) ability to provide employment opportunities to our students. Since we launched our first simulation training program in January 2015, we have set up cooperative programs with a number of leading market players in various industries relevant to our students, including:

- *Simulation training program established with Tianjin NeuEdu Education Information Technology Co., Ltd. (天津東軟睿道教育信息技術有限公司) ("NeuEdu"):* In June 2015, we entered into a five-year cooperation agreement with NeuEdu, pursuant to which Shijiazhuang Institute of Technology and NeuEdu will jointly establish a simulation training program in the area of the Internet of Things (物聯網) for our junior college students majoring in computer network technology. The cooperation agreement provides that NeuEdu will (i) work together with Shijiazhuang Institute of Technology to formulate the curriculum plans; (ii) provide computers and other related equipment necessary to carry out the curriculum plans; and (iii) provide students with internship opportunities and assistance in career planning and counseling. Students enrolled in this program are required to spend two years at Shijiazhuang Institute of Technology to complete all the required mandatory and major-related courses, and will then be assigned to NeuEdu's training bases in Tianjin and Shenyang to complete one-year of on-the-job training. As of December 31, 2017, 52 junior college students of Shijiazhuang Institute of Technology have participated in this program.

- *Cross-border E-commerce Talent Joint Cultivation Base:* In October 2015, we entered into a cooperation agreement with an affiliate of a China-based leading e-commerce service provider (“Partner A”) to establish a cross-border e-commerce talent joint cultivation base. The cooperation agreement had an original term of one year. The cooperation agreement was extended in September 2016 for another year and Partner A subsequently agreed to renew the cooperation agreement annually. The cooperation agreement has currently been extended through September 2018. Under the cooperation agreement, Shijiazhuang Institute of Technology incorporates Partner A’s corporate programs as part of its teaching plan for e-commerce courses. This cooperative program aims to provide junior college students with training on e-commerce and prepare them for the qualification examinations administered by Partner A. Students who pass such examinations will enter into Partner A’s e-commerce talent pool database and may obtain internships or employment with cross-border trading companies registered in the online employment platform operated by Partner A. As of December 31, 2017, 1,148 students of Shijiazhuang Institute of Technology had participated in this program, among whom 969 students, or 84.4% of the participants, have entered into Partner A’s e-commerce talent pool after successfully passing the examinations.
- *Oracle (Shandong) OAEC Talent Base:* In June 2016, we entered into a five-year cooperation agreement with an Oracle approved education center (OAEC) based in Shandong province, China (“Partner B”), to jointly establish a talent base for junior college students majoring in computer science at Shijiazhuang Institute of Technology. Under the terms of the cooperation agreement, Partner B assists in (i) formulating the curriculum plan and syllabus and providing course materials; (ii) carrying out marketing activities relating to student recruitment for the program; (iii) designating lecturers and software engineers to lead classes and other teaching projects; and (iv) providing simulated-based training and internship opportunities. Students who participate in this program will receive a series of employment-related training programs in Oracle’s off-campus training base after completing two years of full-time study at Shijiazhuang Institute of Technology, and those who successfully complete the program may be given employment opportunities at Oracle’s partner companies in several major cities, such as Beijing, Shanghai, Shijiazhuang and Qingdao. We are currently in the process of recruiting students who are interested in participating in this program. As of the Latest Practicable Date, no students had yet to be enrolled in this program. Pursuant to the terms of the cooperation agreement, there is no minimum guaranteed payment and no fees will be paid to the counterparty if students are not enrolled in the program.

As of December 31, 2017, approximately 3,906 students at Shijiazhuang Institute of Technology had participated in our simulation training programs. We believe we have been able to achieve high employment rates for our graduating students in large part as a result of such training programs, which help students identify and prepare for potential employment opportunities. We also believe that the collaboration with industry partners in creating and running such training programs helps us improve our teaching quality, reduce our operating costs and provide attractive opportunities to prospective students.

Cooperation with Overseas Higher Educational Institutions

In order to help students develop a broader global perspective and provide them with access to different cultures and opportunities to seek education overseas, Shijiazhuang Institute of Technology has entered into cooperation agreements and/or memoranda of understanding with six overseas higher educational institutions in Canada, the US and the United Kingdom to facilitate the admission process and/or to establish exchange or joint-degree programs for prospective Chinese students in our junior college program who wish to study abroad. We believe that the cooperative arrangements can help overseas higher educational institutions familiarize themselves with our school and more easily recruit high-quality Chinese students we help select to enroll in their programs. For example, we are in the process of developing an international program to be jointly established with a college of applied arts and technology located in Ontario, Canada. According to the draft curriculum plan jointly formulated by our partner college and us, we plan to offer two majors under the program: internet application and business administration. We target to recruit at least 10 students who will first spend three years at Shijiazhuang Institute of Technology to complete all the required courses necessary to obtain a junior college degree, following which they will spend one year at our partner college in Canada to complete the graduate certificate program. Students will also be required to attend intensive English courses on a weekly-basis while studying at Shijiazhuang Institute of Technology to better prepare for their fourth year of study in Canada. We are now in the process of recruiting more prospective students and finalizing the curriculum plan with our partner college. We launched the program in September 2016 and have recruited nine students as of the Latest Practicable Date.

Secondary Vocational Education Program

With the aim of expanding our student base, we began recruiting and providing training for a small number of middle school graduates wishing to obtain secondary vocational school diplomas and potentially continue their studies with us to obtain junior college diplomas at Shijiazhuang Institute of Technology starting in September 2007. In the 2016-2017 school year, approximately 80% of the students who enrolled in our secondary vocational education program went on to enroll in our junior college program.

After expanding this program and growing the student base it services for several years, in January 2016, we established the College for General Education, a new school within Shijiazhuang Institute of Technology that only admits and houses secondary vocational school students. At the College for General Education, mandatory courses include Chinese, mathematics, English, politics, military theory and introduction to law. To supplement students' academic endeavors with other interests, we also offer a broad range of elective courses such as game theory, modern cinema and psychology at our College for General Education and encourage our students to participate in a variety of extra-curricular activities such as colloquia and sports competitions. As of December 31, 2017, approximately 1,898 students were enrolled in our College for General Education, amounting to 17.1% of the total number of full-time students at Shijiazhuang Institute of Technology.

Continuing Education Programs

Shijiazhuang Institute of Technology provides a range of open and flexible continuing education opportunities at its Open Education College (開放教育學院). These opportunities are especially attractive to part-time students who are currently employed but wish to upgrade their academic degrees while continuing to work. Our continuing education programs primarily consist of remote online learning programs, adult education programs, and a self-study program. Our continuing education programs offer more than 20 majors in a variety of fields, such as computer science, civil engineering, mechanical engineering, law, accounting, business administration, project management and nursing. Students can obtain a junior college or an undergraduate diploma after taking the appropriate continuing education programs and successfully passing final examinations.

The Open Education College is open to all PRC citizens regardless of educational background and generally recruits students from Hebei Province. As of December 31, 2017, the Open Education College had a total of approximately 6,260 part-time students enrolled in different continuing education programs and 18 dedicated teachers and staff.

Remote Online Learning Programs

Shijiazhuang Institute of Technology established two remote online learning centers with two prominent PRC national key universities authorized by the MOE to provide distance education programs in China in November 2008 and September 2016, respectively. Our partner universities include a Xi'an-based public university focused on science and engineering education and a Beijing-based public university known for media and communication studies. The remote online learning centers offer two types of diploma programs through remote online courses for students seeking to upgrade their academic degree from high school diploma to junior college diploma or from junior college diploma to undergraduate diploma. Our remote online learning centers offered a total of 27 distinctive majors covering a wide variety of fields, including civil engineering, electrical engineering and automation, business administration, accounting, journalism, and media and communication. We are primarily responsible for formulating student recruitment plans, organizing student recruitment events and performing certain administrative-related tasks according to our cooperative arrangements with the partner universities. We are also entitled to a certain percentage of the revenue generated from provision of such remote online learning programs as agreed with our partner universities.

Adult Education Programs

Our Open Education College of Shijiazhuang Institute of Technology also offers two types of degree-awarding adult education programs for students seeking to upgrade their academic degree from high school diploma to junior college diploma or from junior college diploma to undergraduate diploma. For the 2014-2015, 2015-2016, 2016-2017 and 2017-2018 school years, a total of 193, 204, 867 and 2,423 students, respectively, enrolled in the adult education programs provided by us.

The Open Education College itself provides adult education programs in 23 majors targeting students holding high school diplomas and seeking junior college diplomas. The most popular majors include artistic design, nursing, sales and marketing, accounting and automobile inspection and maintenance. In addition, the Open Education College was authorized by Hebei University to provide adult education programs for students who hold high school or junior college diplomas and wish to obtain undergraduate diplomas. Such programs are delivered by the teaching staff from Hebei University in the form of part-time face-to-face courses or correspondence courses. The programs encompass 10 majors, including preschool education, business administration, accounting, civil engineering and artistic design.

Self-study Program

Since 2012, we have provided tutorial courses for students who hold junior college diplomas from Shijiazhuang Institute of Technology or other higher educational institutions in China to prepare for 14 examinations administered by Hebei Education Examinations Authority (河北省教育考試院) to obtain an undergraduate diploma through self-study (自考本科學歷) issued by the Committee of Hebei Higher Education Self Study Examinations (河北省高等教育自學考試委員會). However, we suspended our self-study program in the 2016-2017 school year due to decreased student demand for such program after the Hebei Education Examinations Authority raised the difficulty of the examinations required for students to obtain an undergraduate diploma through self-study in January 2015.

Ancillary Education Services

In addition to full-time junior college and secondary vocational school programs as well as some part-time continuing education programs, we also offer a variety of ancillary, non-degree education services, including skill-oriented professional training services and college operation services we provide to the west campus of Sifang College.

Professional Training Services

We believe that market demand for qualified individuals who already possess recognized professional qualifications and practical and readily applicable skills has been steadily growing. As such, we are committed to developing and providing high-quality professional training for students and workers who wish to obtain the necessary qualifications and skills to meet the changing market demand.

We currently offer two types of non-degree professional training services at our Shijiazhuang Institute of Technology: (i) exam preparatory courses for students looking to increase their chances of obtaining professional qualification certificates; and (ii) a vocational training program designed for companies looking to provide their employees with professional development and skill-building training opportunities.

- *Preparatory courses for qualification examinations:* As of December 31, 2017, we provided exam preparatory courses to help students study for exams relating to 24 distinct professional qualifications in a variety of fields, including exams for accounting, automotive repair, nursing and electrician qualifications. All instructors who teach these preparatory courses are teachers from the relevant departments of our Shijiazhuang Institute of Technology. As of December 31, 2017, approximately 3,351 students had participated in these preparatory courses.

- *Vocational training program:* In June 2016, we established a vocational training program through a cooperative arrangement between us and Guoshi Jieneng, a company engaged in intelligent manufacturing and energy saving technology development. Pursuant to such arrangement, our teaching staff at Shijiazhuang Institute of Technology work with Guoshi Jieneng's mechanical engineering experts to design and deliver training on the design, operation, maintenance and repair, installment and commissioning, research and development, and provision of after-sales services for modern industrial robots. This training primarily targets the front-line mechanics, sales forces, and research and development personnel in the manufacturing industry. We have completed formulation of the courses under this program in August 2016. As of the Latest Practicable Date, a total of 47 students enrolled in our Shijiazhuang Institute of Technology and 20 outside participants have completed this training program. We intend to extend such training to other corporate partners in the near future. Please see “– Our Business Strategies – Optimize and diversify our education services and widen our revenue base” in this section for details.

College Operation Services to the West Campus of Sifang College

We provide a variety of services on behalf of Lionful Education, our related party, to aid in the school operation and student administration of the west campus of Sifang College. This kind of arrangement allows us to leverage and monetize the experience we have built up in operating our own schools.

Since May 2002, Lionful Education and Shijiazhuang Tiedao University started to jointly operate Sifang College. Lionful Education and Shijiazhuang Tiedao University are joint school sponsors of Sifang College. Under the joint cooperation agreement between the parties, Lionful Education was responsible for providing certain key school operation and student administration services to the west campus of Sifang College. Set out below are the principal terms of the currently effective agreement between Lionful Education and Shijiazhuang Tiedao University, which was initially entered into in May 2002 and most recently renewed in October 2015:

- *Duration:* Five years.
- *Principal rights and obligations of Lionful Education:* The principal obligations of Lionful Education include, among others, (i) providing teaching venues, meal services and accommodation for students of the west campus of Sifang College; (ii) implementing the curriculum formulated by Sifang College and organizing teaching activities and examinations for students of the west campus of Sifang College; and (iii) assisting with the student administration of the west campus of Sifang College.
- *Principal rights and obligations of Shijiazhuang Tiedao University:* The principal obligations of Shijiazhuang Tiedao University include, among others, (i) formulating student recruitment plans for the west campus of Sifang College; (ii) conducting student profile management; (iii) formulating curriculums of Sifang College; and (iv) issuing graduation certificates to students of Sifang College that meet the graduation qualification.
- *Payment terms:* Lionful Education is entitled to 65% of the tuition revenue generated from the west campus of Sifang College while Shijiazhuang Tiedao University is entitled to the remaining 35%.
- *Renewal:* The agreement can be extended upon negotiation of the parties prior to its expiration.
- *Termination:* The agreement will be terminated if one or both parties cannot fulfill its obligations under the agreement due to changes in PRC government policies related to the education industry.

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In addition, pursuant to a separate agreement between the parties, Lionful Education was authorized by Shijiazhuang Tiedao University to outsource the aforesaid college operation services provided to the west campus of Sifang College to any third parties with relevant school operation capabilities. On June 21, 2010, Lionful Education outsourced such services to Shijiazhuang Institute of Technology according to an entrustment agreement, taking into account the experience of Shijiazhuang Institute of Technology in operating a college and its proven ability to organize teaching resources. Set out below are the principal terms of the entrustment agreement:

- *Duration:* Ten years.
- *Principal rights and obligations of Lionful Education:* The principal obligations of Lionful Education include, among others, (i) monitoring and assessing the school management services carried out by Shijiazhuang Institute of Technology; and (ii) paying Shijiazhuang Institute of Technology the tuition and management fees in a timely manner.
- *Principal rights and obligations of Shijiazhuang Institute of Technology:* The principal obligations of Shijiazhuang Institute of Technology include, among others, (i) providing teaching venues, meal services and accommodation for students of the west campus of Sifang College; (ii) implementing the curriculum formulated by Sifang College and organizing teaching activities and examinations for students of the west campus of Sifang College; and (iii) assisting with the student administration of the west campus of Sifang College.
- *Payment terms:* Shijiazhuang Institute of Technology is entitled to 65% of the tuition revenue generated from the west campus of Sifang College. Lionful Education will pay to Shijiazhuang Institute of Technology the tuition and management fees within two weeks after it receives such payments from Sifang College.
- *Renewal:* The agreement can be extended upon negotiation of the parties prior to its expiration.
- *Termination:* The agreement will be terminated if one or both parties cannot fulfill its obligations under the agreement due to changes in PRC government policies related to the education industry.

As the entirety of Lionful Education's 65% of revenue under the joint cooperation agreement with Shijiazhuang Tiedao University is transferred to Shijiazhuang Institute of Technology by virtue of the entrustment arrangement between the two parties, Lionful Education became our largest customer during the Track Record Period and accounted for approximately 12.1%, 12.3% and 10.6%, respectively, of our total revenue for the years ended December 31, 2015, 2016 and 2017. Please see "Connected Transactions – Non-exempt Continuing Connected Transactions – Entrustment Agreement" in this prospectus for details.

In addition to the revenue transferred from Lionful Education to our Group as school operation service fees, we also provide accommodation services to the students enrolled by the west campus of Sifang College for which we collect accommodation service fees directly from such students.

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The following table sets forth information relating to the approximate student enrollment, student capacity and utilization rate of the west campus of Sifang College during the periods indicated:

School	Student Enrollment ⁽¹⁾				Student Capacity ⁽²⁾				Utilization Rate % ⁽³⁾			
	School Year				School Year				School Year			
	2014-2015	2015-2016	2016-2017	2017-2018	2014-2015	2015-2016	2016-2017	2017-2018	2014-2015	2015-2016	2016-2017	2017-2018
Sifang College (West Campus)	2,967	2,940	2,960	2,960	3,000	3,000	3,000	3,000	98.9%	98.0%	98.7%	98.7%

Notes:

- (1) The student enrollment information during the Track Record Period was based on the official records of the relevant PRC education authorities and the internal records of Sifang College.
- (2) As we provide student accommodation services to students of the west campus of Sifang College, the student capacity of the west campus of Sifang College is calculated based on the approximate number of beds available to full-time junior college students enrolled at Sifang College, which is allocated by Shijiazhuang Institute of Technology to Sifang College.
- (3) The utilization rate is calculated by dividing the number of full-time students enrolled by the student capacity.

Saintach Tutorial Centers

Overview

Our Saintach Tutorial Centers provide high-quality individualized or small group tutoring for primary school, middle school and high school students. Consistent with our educational philosophy to foster students' growth and help them create a bright future for themselves through learning, our Saintach Tutorial Centers focus not only on students academic performance, but also on stimulating students' overall interest in learning and on fostering all-round development. We offer students a wide variety of tutorial courses delivered by high-quality tutoring staff, supported by a strong research and development team, and a highly devoted and skilled service team at our Saintach Tutorial Centers.

Our tutoring services have become increasingly popular among students over the Track Record Period. For the years ended December 31, 2015, 2016 and 2017, we delivered approximately 329,635, 337,591 and 367,752 Tutoring Hours, respectively, to approximately 3,710, 4,108 and 4,928 students, respectively, at our Saintach Tutorial Centers. As of December 31, 2017, we had approximately 905 teachers and staff (including 583 part-time teachers) located throughout 10 tutorial centers. Almost all of our students came from the Shijiazhuang area.

The following table sets forth a breakdown of Tutoring Hours by type of tutorial services we provided at our Saintach Tutorial Centers for the periods indicated⁽¹⁾:

Type of Tutorial Services	Tutoring Hours		
	Year ended December 31,		
	2015	2016	2017
One-on-one tutoring	242,069	257,881	267,718
Small-group tutoring	87,566	79,710	100,034
Total	329,635	337,591	367,752

Note:

- (1) As there occurred significant overlaps in terms of the number of students by category of tutorial programs (i.e., individual and small-group tutoring) during the Track Record Period due to the fact that a number of students signed up for both individual and small-group tutorial programs offered at our Saintach Tutorial Centers, we are unable and it would not be meaningful for us to breakdown the revenue and number of students by type of tutorial services we provided at our Saintach Tutorial Centers for the periods indicated above.

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The following pictures show the school facilities of several of our Saintach Tutorial Centers:



School Network

Since the opening of our first Saintach Tutorial Center in 2012, we have expanded our network of tutorial centers considerably. Over the Track Record Period our network of tutorial centers largely remained stable. As of December 31, 2015, 2016 and 2017, we had three, six and six Saintach Tutorial Schools, several of which had more than one operating location, for a total of 10, 10 and 10 Saintach Tutorial Centers, respectively, all located in Shijiazhuang, Hebei Province.

The following table sets forth changes in the number of tutorial centers for the periods indicated below:

	Year ended December 31,		
	2015	2016	2017
At the commencement of the year	10	10	10
Addition during the year	—	1	—
Closure during the year	—	1	—
Net increase	—	—	—
At the end of the year	10	10	10

We opened an additional new Tutorial Center operated under our Huixuan Tutorial School in January 2018.

The continued growth and success of our tutorial center operations is dependent upon our ability to carry out our expansion plan, which includes the addition of new tutorial centers. We carefully select our sites in areas where after-school tutoring service is in high demand. We believe that increasing the number of our tutorial centers in desirable areas is an essential strategy for competing effectively in the current environment and maintaining our leading position in the Shijiazhuang after-school tutoring market.

Going forward, we plan to expand our existing network of Saintach Tutorial Centers by acquiring and rebranding third-party tutorial schools primarily engaged in providing small-group tutoring services in the Integrated Area. Please see “– Our Business Strategies – Expand our network and increase our market penetration in the Integrated Area, and strengthen our brand and reputation” in this section for details.

Tutorial Programs

The tutorial programs offered at our Saintach Tutorial Centers target students looking to achieve superior test scores in order to get accepted into prestigious schools, as well as students having difficulty with their studies and who can benefit from additional help with their school work. Our tutorial programs are designed to reinforce the standardized school curriculum and encompass all regular courses taught at PRC primary schools, middle schools and high schools, including Chinese, mathematics, English, physics, chemistry, biology, geography, history and politics. Such tutoring courses also provide students the opportunity to extend their learning beyond the strict limits of standardized school curriculums, build the learning skills they need to improve their scores effectively and achieve their broader educational goals.

Our tutoring courses are typically offered to students on a one-on-one basis or in small groups. Each Tutoring Hour is 60 minutes in lengths for secondary school students and 40 minutes in lengths for primary school students. One-on-one tutoring is designed for students with respect to a single area and is typically led by a trained instructor who has relevant teaching experience in that area. The number of Tutoring Hours making up a student’s complete course is jointly determined by the student and his or her Golden Coach when they begin working together, and is primarily based on discussions between the student, his or her parent and the Golden Coach as well as a performance evaluation conducted by the Golden Coach. Please see “— Golden Coaches” in this section for details. Small-group tutoring serves as a smaller version of the classroom setting and provides students with the opportunity to meet at a pre-scheduled time to prepare for or review course materials to improve their classroom performance at school. Small-group tutoring is also popular among students in the 9th and 12th grades preparing for the Zhongkao and the Gaokao. A group typically consists of two to 15 students and an instructor. The average number of students per small group tutored in our Saintach Tutorial Centers was five, six and six students, respectively, for the three years ended December 31, 2015, 2016 and 2017.

We believe our customized tutoring services have helped us build strong loyalty among students, as a large number of students who complete one of our tutorial programs go on to enroll in additional tutorial programs, with the renewal rate of our Saintach Tutorial Centers for the years ended December 31, 2015, 2016 and 2017 being approximately 48.8%, 51.7% and 55.4%, respectively.

Golden Coaches

Each student enrolled at our Saintach Tutorial Centers is assigned a “Golden Coach”, a learning advisor who oversees the process of creating, staffing and administering a personalized tutoring program for that student, monitoring students’ learning progress and liaising with teachers and parents on an on-going basis.

For newly enrolled students in our tutorial programs, our courses typically begin with a counselling session among the Golden Coach, the relevant students and their parents to help the Golden Coach better understand the goals and concerns of the relevant students and parents. Following this meeting, the relevant Golden Coach will (i) carry out a formal evaluation of the students, taking into account their grades, learning habits and learning attitude; (ii) formulate an individual learning plan based on the evaluation results; and (iii) select appropriate teachers for each of our students. Where deemed necessary, to help address problems with learning habits and attitudes, the Golden Coach may also request a psychological counsellor to assist. Over the course of the tutoring program, the Golden Coach will continue to monitor the implementation of such plan by regularly communicating with teachers (and, where relevant, psychological counsellors) and keep parents informed about their children’s progress. As of December 31, 2017, we had 30 Golden Coaches in our Saintach Tutorial Centers, each of whom serves approximately 50 to 100 students.

We evaluate the performance of our Golden Coaches based on various key performance indicators such as professional capabilities, number of students one is responsible for and students' satisfaction. Golden Coaches receive a grade on a quarterly basis which is used to determine their compensation and prospects.

New Lion Club

In 2011, we established the “New Lion Club” (新獅會), a study club that strives to foster a community and provide additional resources and enrichment opportunities for all students who have participated in more than 80 Tutoring Hours at our Saintach Tutorial Centers. The New Lion Club offers a range of academic and social events free of charge, including outward bound trips, sports competitions, seminars and workshops. We strongly encourage eligible students to join the New Lion Club in order to complement their academic experience. Upon joining the New Lion Club, members enjoy a number of benefits and advantages, including reward points which they may trade for gifts and/or Tutoring Hours, free club magazine subscription and free access to special seminars and workshops.

Saintach Kindergartens

Overview

As of the Latest Practicable Date, we operated eight self-operated Saintach Kindergartens for students aged between two to six years old. Our kindergarten classes are divided into two categories: international classes and model international classes. Class sizes are generally limited to 25 to 30 students per class with a teacher-student ratio of approximately 1:8 for our international classes and 20 to 25 students per class with a teacher-student ratio of approximately 1:5 for our model international classes. While classes of both categories are led by a homeroom teacher together with at least two assistant teachers, our model international classes are usually taught by teachers who have more experience in preschool education and better English language skills. For the 2017-2018 school year, tuition of our Saintach Kindergartens ranged from RMB980 to RMB1,880 per month for our international classes and from RMB1,980 to RMB2,280 per month for our model international classes.

As of December 31, 2017, our Saintach Kindergartens had a total of approximately 1,825 students and approximately 321 dedicated teachers and staff.

The following pictures show the school facilities of several of our Saintach Kindergartens:



BUSINESS

School Network

We opened our first Saintach Kindergarten in January 2011 as a fully privately-funded school. We currently operate eight self-operated Saintach Kindergartens with a total gross site area of approximately 10,530 sq.m., all of which are located in Shijiazhuang, Hebei Province. The following table sets forth the changes in the number of our Saintach Kindergartens during the periods indicated below:

	Year ended December 31,		
	2015	2016	2017
At the commencement of year	11	13	8
Addition during the year	2	–	–
Closure during the year	–	–	–
Net increase/(decrease).	2	(5)	–
At the end of the year	13	8	8

We established two new self-operated Saintach Kindergarten in 2015 primarily because of our efforts to expand our school network. We believe that increasing the number of our kindergartens in desirable areas is an essential strategy for us to broaden our student base and increase our market penetration in the Shijiazhuang preschool market.

We disposed of five Saintach Kindergartens in 2016. These kindergartens had leased premises from certain real estate developers who were required under PRC law to transfer the ownership of such school premises to the local government upon completion of the construction work. According to the relevant authorities, issuance of operating licenses to our kindergartens was conditioned upon completion of the aforesaid transfer of ownership. The real estate developer indicated to us that the transfer of ownership would be completed in time prior to the opening of our kindergartens, and due to unfamiliarity with the real estate developer's legal obligations to transfer the ownership of the school premises to the local government, we did not foresee any substantial impediment to obtaining the required operating licenses for such kindergartens. Accordingly, we commenced operation of these kindergartens with misunderstanding and expectation that the operation license would be granted simultaneously. However, as the discussions between the real estate developer and the local government regarding the transfer of ownership were still pending, we were unable to obtain operating licenses from the relevant education authorities. For the years ended December 31, 2015 and 2016, revenues generated from the five closed Saintach Kindergartens amounted to RMB13.0 million and nil, respectively, representing approximately 8.8% and nil, respectively, of our total revenue. We obtained the written confirmation from the relevant local educational authorities that (i) each of such Saintach Kindergartens maintained normal operations since their establishment, and (ii) the relevant educational authorities would not take any regulatory measures against such kindergartens for their operations. Our PRC Legal Advisor is of the view that such educational authorities were the competent authorities to provide the above confirmation. As of the Latest Practicable Date, all of our remaining kindergartens had obtained the operating licenses and permits necessary to carry out their businesses.

To prevent the recurrence of such incidents, we have adopted the following enhanced internal control measures:

- (i) all newly-established Saintach Kindergartens cannot commence operations without having obtained all required operating licenses and permits;
- (ii) we will review the status of the operating licenses and permits of our self-operated Saintach Kindergartens on an annual basis to ensure such licenses and permits remain in full effect; and
- (iii) our Group will conduct on-site inspections of our self-operated Saintach Kindergartens on an irregular basis to prevent non-compliance with applicable PRC laws and regulations in our operations that may lead to suspension or revocation of our operating licenses and permits.

In addition to our self-operated Saintach Kindergartens, over the Track Record Period, we also cooperated with a number of third party kindergartens with whom we entered into franchise agreements using a variety of business models. Please see “– Franchised Saintach Kindergartens” in this section for details.

Going forward, we plan to expand our network of Saintach Kindergartens in the Integrated Area through acquiring and rebranding third party kindergartens. Please see “– Our Business Strategies – Expand our network and increase our market penetration in the Integrated Area, and strengthen our brand and reputation” in this section for details.

Philosophy and Curriculum

The educational philosophy at our Saintach Kindergartens is to cultivate our children from an early age to become good citizens who are confident, friendly, tolerant and responsible. We strive to expose our students to a nurturing, supportive and multi-cultural learning environment. To that end, we developed the SMI Course System, a distinctive curriculum system for preschool students that blends elements from both Chinese traditional culture and modern, developmental educational approaches.

Our SMI Course System is designed to combine various learning activities in the fields of science, arts, health, society and languages, so as to stimulate our students’ interest in exploring the world and awaken their innate learning potential. The system consists of three distinctive types of courses that emphasize different aspects of learning, namely: Saintach basic courses, multi-faceted courses and international courses.

- *Saintach Basic Courses:* Saintach basic courses form the foundation of our course system and are developed based on the latest pedagogical studies and theories of child developmental psychology and traditional Chinese culture. Our Saintach basic courses contain various courses with emphasis on the all-round development of children, including civic education, music education, speech, social practice and financial education.
- *Multi-faceted Courses:* Multi-faceted courses form another core component of our course system. With the goal of nurturing each child’s natural desire to acquire and master skills, and to learn about responsibility and cooperation, we introduced a series of modern, western educational concepts and approaches into our course system and developed the multi-faceted courses which broadly focus on children’s awareness of behavioral norms, physical coordination, cognitive preparation, social skills and emotional growth by allowing children to engage in a wide range of multi-faceted, unstructured activities within a thoughtfully crafted environment. The multi-faceted courses are prepared by our teachers with a wealth of teaching aids and activities for children to engage in practical skills such as basic life skills, mathematics, language, art, science, geography, zoology, botany, history and sensorial education. Our teachers act primarily as an “observer” in class, while it is our students’ interaction with the environment that enables learning to occur.
- *International Courses:* International courses form the final part of our course system and are designed to encourage our children to become good citizens of the wider world. Our international courses include (i) English courses taught by foreign and local teachers in which students are immersed in a full English language environment, and (ii) international perspective courses in which students learn about a variety of cultures and societies from a global perspective. We believe that our international courses equip our students with bilingual language skills and a broad world view which can distinguish them from their peers and help prepare them to succeed in the future.

The lesson plans and syllabi for each course within our overall curriculum are generally formulated at the beginning of each school year and/or semester. Due to distinctive characteristics and capabilities of children at different stages of development, curriculum plans and arrangements for the three course modules can vary among different age groups. Based on the curriculum plans and syllabi, course handbooks which set out the teaching goals, principles, methods, schedules and activities for each course are prepared and distributed to our teachers as strategic teaching guidance. In order to keep current with advanced educational concepts and modern trends in preschool education, we generally review and update the curriculum of our course system every three years.

Preschool Educational Resources

Leveraging our years of experience in preschool education, the research and development department of our Saintach Kindergarten has designed and developed a wide array of preschool educational resources that we use both within and in addition to the core curriculum to enhance the experience of students and parents, and to improve our operating efficiency. Our major preschool educational resources include:

- *Kindergarten courses and teaching materials:* Our teaching research center for Saintach Kindergartens has developed a variety of course materials for students and training materials for preschool educational institutions on its own or jointly with third-party partners. As of December 31, 2017, kindergarten courses developed by us include such eclectic topics as music courses, financial education for children, traditional Chinese study and etiquette courses. We published our first course book about financial education for children in June 2015 and expect to publish other course books covering topics such as music and traditional Chinese study by the end of 2018. Such self-developed kindergarten courses and teaching materials have been broadly used in our core curriculums to enrich the learning experience of our students.
- *Parenting classes:* We offer regular parenting classes for caretakers of our students during non-school hours. These classes aim to provide caretakers with necessary parenting skills, help them complement our education programs through activities at home and further strengthen the growth and development of our students. Historically, such classes have been offered free of charge.

Franchised Saintach Kindergartens

Starting in April 2015, with the aim of expanding our school network and leveraging our brand, reputation and experience managing kindergartens to diversify revenue streams, we entered into franchise arrangements with a number of third party kindergartens. These arrangements made use of a number of different business models which determined the level of our participation and the amount of revenue we received. For certain franchisees, our own management team directly managed and operated the facilities of such franchisees under our “Saintach” brand, while other franchisees made use of our brand and/or other curriculum and teaching materials, but operated their schools themselves.

The following table sets forth the changes in the number of our franchised Saintach Kindergartens during the periods indicated below:

	Year ended December 31,		
	2015	2016	2017
At the commencement of year	–	3	1
Addition during the year	3	8	–
Termination during the year	–	10	–
Net increase/(decrease).	–	(2)	–
At the end of the year	3	1	1

As of the Latest Practicable Date, we had one franchised kindergarten which was located in Xingtai, Hebei Province. Such franchisee was operated by its own management teams to whom we have licensed the “Saintach” brand name and provided teacher training, and use the complete curriculum and teaching materials of our Saintach Kindergartens. In an attempt to implement a franchise strategy, we added three and eight new franchise kindergartens in 2015 and 2016, respectively, all of which were Independent Third Parties. The franchisees indicated to us that they would be able to obtain the operating licenses necessary for the operation of the franchised kindergartens on a timely basis when signing the franchise agreements with us. However, we terminated our relationship with the three franchisees added in 2015 and seven out of the eight franchisees added in 2016 due to the failure of such franchisees to obtain the required operating licenses. Seven franchisees added in 2016 did not generate any revenue as they were terminated before commencing operations. Revenue generated from the three remaining franchisees added in 2015 amounted to RMB0.5 million and RMB0.1 million, respectively, for the years ended December 31, 2015 and 2016. We obtained the written confirmation from the relevant local educational authorities that (i) each of such three franchisees maintained normal operations since their establishment, and (ii) the relevant educational authorities would not take any regulatory measures against such franchisees for their operations. Our PRC Legal Advisor is of the view that such educational authorities were the competent authorities to provide such confirmation.

We currently have no plans to enter into further franchise agreements with third party kindergartens. We have adopted the following enhanced internal control measures with respect to the remaining franchised kindergarten:

- (i) we will review the status of the operating license and permit of the franchised kindergarten on an annual basis to ensure such license and permit remain in full effect;
- (ii) our Group will conduct on-site inspections of the franchised kindergarten on an irregular basis to prevent non-compliance with applicable PRC laws and regulations in its operations that may lead to suspension or revocation of its operating license and permit; and
- (iii) we will terminate our franchise agreement with the franchisee if its operating license and permit cannot be renewed, becomes invalid, or is revoked.

Franchise Agreement

Our relationship with our franchised kindergarten is governed by a franchise agreement we entered into with the franchisee in March 2016. Pursuant to the franchise agreement, the franchisee bears all costs and risks of operating the franchised kindergarten, maintains financial books and records independently and keeps retained earnings after making the relevant payment to us. We manage, monitor and control our franchisee in part through the franchise agreement, which includes the following principal terms:

- *Duration and renewal:* The franchise agreement is valid for a five-year term and is renewable by mutual consent subject to negotiation of new terms after our receipt of a renewal request notice by the franchisee.
- *Principal rights and obligations of the franchisee:* The franchisee has the obligations to (i) implement our standardized curriculum that meets our teaching standards and adhere to our operating policies and procedures; (ii) maintain our uniform school image and protect the intellectual property rights associated with the “Saintach” brand; and (iii) not cooperate with third parties using our “Saintach” brand without our prior consent. The franchisee has the rights to (i) utilize our brand and educational resources; and (ii) receive our services in relation to student recruitment and teacher training.
- *Our principal rights and obligations:* We have the right to monitor school operations and curriculum implementation of the franchisee to ensure compliance with our standards and

requirements. We are obligated to assign a principal, a director of student administration and a director of student recruitment to the franchised kindergarten to provide consulting and training services in relation to opening of new kindergarten, curriculum implementation, student recruitment, and school operations in the one month before the opening of such kindergarten and the first three months thereafter.

- *Geographic or other exclusivity:* The franchise agreement allows for the exclusive right to act as our franchisee within a designated geographic franchise area for the duration of the franchise agreement.
- *Payment of franchise fees:* We request a deposit (which will be refunded without interest if no default event occurs upon expiration of the franchise agreement) from the franchisee, and charge a lump sum franchise fee for granting the use of our brand name and curriculum, together with a lump sum service fee for provision of consulting services relating to the opening and operations of the kindergarten. The franchisee is required to pay the lump sum franchise fees within five days after signing of the franchise agreement.
- *Termination:* We are entitled to terminate the franchise agreement upon occurrence of the following breaches of obligations by the franchisee: (i) failure to fulfill the franchisee's obligations under the franchise agreement; (ii) unauthorized disclosure of confidential information relating to our operating model, compensation and performance evaluation mechanism to third parties; (iii) failure to make timely payment of franchise fees under the franchise agreement; (iv) damage to our reputation and credit caused by accidents due to reasons attributable to the franchisee; (v) granting franchises to third parties in the name of "Saintach" without our prior consent; and (vi) failure to comply with applicable PRC laws and regulations.

Our franchise agreement did not contain any clauses governing (i) tuition and pricing policies; (ii) tuition refund arrangements; (iii) targeted revenue; and (iv) credit terms.

Additional Services

Although we currently have no plans to enter into further franchise agreements with third party kindergartens, we are exploring alternative ways of leveraging our brand name and relevant experience. In particular, we have plans to provide management support services to third party operators and/or investors in the Integrated Area who are interested in establishing and/or operating kindergartens without using our brand. In connection with such services, we will also encourage the third party kindergartens to purchase and use our course and teaching materials. To help improve the professional skills of teachers in the third party kindergartens, we also plan to provide a series of teacher training services, such as pre-employment training for new teaching staff and continuing training on teaching theories and methodologies based on our course system and standardized operating model. As of the Latest Practicable Date, we had entered into consulting service agreements with 10 potential individual investors looking to invest in the kindergarten market. Set out below are the principal terms of these consulting service agreements:

- *Duration:* Three years.
- *Scope of services:* We will provide the potential investor with an agreed amount of professional training, counseling and guidance related to the establishment, management and operations of a kindergarten, including site selection, curriculum formulation and implementation, standardized operational approaches, as well as student recruitment and administration.
- *Payment of consulting service fees:* The potential investor is required to pay a lump-sum, non-refundable consulting service fee ranging from RMB45,000 to RMB50,000 within three business days upon signing of the agreement.

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- *Prohibition of the use of our “Saintach” brand:* The potential investor is prohibited from using our “Saintach” brand or any similar brand for the prospective kindergarten, including in its ancillary teaching items and promotion materials.
- *Geographic restrictions:* Third party kindergartens to which we provide management support services are not allowed to be located within two kilometers of any of our existing Saintach Kindergartens or new ones that we plan to establish. Such kindergartens are also not allowed to relocate without our prior written approval.
- *Confidentiality:* Information provided by either party under the consulting service agreement shall not be disclosed to any third party or used for any purposes other than those agreed under the consulting service agreement.
- *Termination:* We are entitled to terminate the consulting service agreement upon the occurrence of any of the following breaches of obligations by the potential investor: (i) failure to comply with the terms of the consulting service agreement, and to rectify such breaches in time upon our written request; (ii) cooperation with third parties in our name without our prior consent; (iii) causing damage to our reputation and commercial goodwill; and (iv) failure to comply with applicable PRC laws and regulations.

Leveraging our experience in kindergarten operations, we have designed and implemented internal policies that allow us to maintain certain safeguards and control over the operations of the third party kindergartens to which we provide management support services and minimize potential competition between us and such kindergartens:

- *Contractual control:* We enter into a consulting service agreement, the principal terms of which are summarized above, with each third party kindergarten to which we provide our management support services. In case any such kindergarten violates the restrictive clauses under the consulting service agreement, we retain the right to terminate the agreement.
- *On-site inspections:* We conduct regular on-site inspections of the kindergartens to which we provide management support services without prior notice to ensure that such kindergartens do not operate in or relocate to areas in which they will compete with us directly and that they do not use our “Saintach” brand in their operations or grant any third parties to use our curriculums.
- *Differentiated operations:* We continue to modify and update our standardized operation and management protocols in response to our evolving operation needs and will only distribute the most up-to-date versions to our self-operated Saintach Kindergartens without sharing them with any third party kindergartens.

OUR STUDENTS AND STUDENT RECRUITMENT

Our Students

We have operated educational institutions since 2003 and we believe our brand name and the quality of education we provide are the key attractions to our prospective students.

Our Shijiazhuang Institute of Technology adopts different student recruitment policies for its various education programs. For its junior college programs, Shijiazhuang Institute of Technology participates in the national unified higher education student recruitment organized by the MOE and its local counterpart in Hebei Province. In order to be accepted by us, students need to choose Shijiazhuang Institute of Technology in their university entrance application, take the National Higher Education Entrance Exam and achieve the required total score for admission. The number of students Shijiazhuang Institute of Technology is able to accept for each school year is set and approved by the competent education authority in Hebei Province. For its secondary vocational education program, Shijiazhuang Institute of Technology recruits middle school graduates based largely on the scores they obtained in the Zhongkao within Hebei Province and generally offers admission to at least 20 students for each major per school year. For Shijiazhuang Institute of Technology's continuing education programs, applicants who are interested in the adult education programs and self-study program are generally required to provide the scores they achieved in the National Higher Education Entrance Exam for Adults. With regard to the remote online learning programs, applicants need to attend the admission test administered by our partner universities.

For our Saintach Kindergartens, we primarily focus on recruiting children in the Shijiazhuang area. We generally admit children who we believe are well-rounded to be able to benefit from our kindergarten classes, and whose parents can provide their children with family education in alignment with our educational philosophy.

Our Saintach Tutorial Centers are generally open to all primary school, middle school and high school students who strive to improve their academic performance or need help with their school work.

Student Recruitment

To attract high-quality students and increase enrollment at our schools, we utilize a variety of marketing and recruiting methods.

Word-of-mouth referrals have made up one of the most important forces driving student enrollment at our schools. We believe the most effective recruiting tool is the demonstration of the quality of our strong and diverse education programs that expand the knowledge of our students. We believe our students' parents have been generally satisfied with our education and their referrals have helped us attract more students. Through the years, we have built an extensive student alumni network, which has been a useful platform to promote referrals.

We have also engaged in a variety of active methods to market and otherwise promote our schools and services. For example, we publish student recruitment advertisements for Shijiazhuang Institute of Technology in newspapers, on our school website, and on Weibo, WeChat and other online or mobile platforms. We also attend local student recruitment fairs in various provinces in China. Furthermore, we have established student recruitment offices at our schools and tutorial centers through which we arrange for our teachers and admission staff to answer questions from prospective students and their parents. As of December 31, 2017, we employed 97 recruitment staff for all our schools and tutorial centers. We require our recruitment staff to attend various recruiting and marketing training programs.

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OUR TEACHERS

We believe the quality of education we provide is strongly tied to the quality of our teachers. Highly capable and dedicated teachers are instrumental in shaping the learning habits of our students and crucial to our success. Before hiring a teacher, we usually consider his or her educational background and/or performance in the interview. We seek to hire teachers who (i) hold necessary academic credentials and professional qualifications; (ii) are passionate about education and improving students' academic performance and overall well-being; (iii) have mastery of their respective subject areas; (iv) have strong communication and interpersonal skills; and (v) are capable of using a variety of teaching tools and methods tailored effectively to students' needs. As of December 31, 2017, we had a total of 1,322 teachers (including 701 part-time teachers) and, as of such date, approximately 77.9% of our full-time teachers had a bachelor's degree or above and approximately 34.3% had a master's degree or above. As of December 31, 2017, we had four foreign teachers retained by our Saintach Kindergartens.

The following table sets forth the number of our teachers for all of our schools and tutorial centers as of the dates indicated below:

<u>School</u>	<u>Number of teachers</u>		
	<u>As of December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
Full-time Teachers			
Shijiazhuang Institute of Technology	257	278	302
Saintach Tutorial Centers	122	140	153
Saintach Kindergartens	208	159	166
Subtotal (full-time teachers)	587	577	621
Part-time Teachers			
Shijiazhuang Institute of Technology	136	127	118
Saintach Tutorial Centers	334	308	583
Saintach Kindergartens	—	—	—
Subtotal (part-time teachers)	470	435	701
Total	1,057	1,012	1,322

The teacher-to-student ratio at Shijiazhuang Institute of Technology as of December 31, 2015, 2016 and 2017 was 1:24, 1:26 and 1:20, respectively. We actively manage and seek to improve our teacher-to-student ratio based on the needs of our increasing student enrollments, and our schools' education plans and activities. Going forward, we intend to continue to devote our efforts to recruiting, training and retaining teachers and build a highly qualified and stable full time teaching staff and continue to enhance our teacher-to-full time student ratio in the future.

Teacher Recruitment

We determine the need for new teachers primarily based on the size of our current student enrollment and the number of students in incoming classes. Before hiring a teacher, we usually consider his or her educational background, teaching experience, any awards and recognition received in the past, and review relevant transcript and certificates. We also administer several rounds of in-person interviews conducted by a number of individuals of varying seniority and in different departments, typically including members of the school management team, existing teaching staff, human resources and other administrative staff. For Shijiazhuang Institute of Technology and certain of our kindergartens or tutorial centers, we require teaching applicants to teach a class so we can evaluate their teaching performance in a live-setting. We also consider a teaching applicant's prior teaching experience, awards and recognitions and whether he or she has graduate degrees, among other potential criteria.

Teacher Training

We provide a series of pre-employment training sessions to help newly hired teachers understand the overall operations of our Group, our suggested teaching methods, our educational philosophy and our history and traditions. We seek to inspire new teachers to pursue their careers with passion and dedication. We also provide continuing training for our teachers so that they can keep current with new teaching theories and/or methodologies, changing testing and admission standards, student preferences and other trends. In particular, we provide centralized teacher training at our Saintach Tutorial Centers and Saintach Kindergartens. We believe such centralized training can effectively improve our teachers' professional skills and teaching quality to ensure consistent, high-caliber education services delivered across our school network. In addition to regular teacher training, we also organize outward bound activities for our teachers to help team building, improve communications and develop employee motivation.

Teaching Research Support

We believe strong research capabilities on teaching theories and methods are important to ensuring our success and our ability to enhance the quality of education we provide. We established two teaching research centers, one for our Saintach Kindergartens and one for our Saintach Tutorial Centers, which together make use of 26 advisors who are teachers within our Group and 10 external educational experts in total as of December 31, 2017.

The primary responsibilities of our teaching research centers include: (i) researching on and developing core curriculums, education strategies, course materials and exam preparation materials for Saintach Kindergartens and Saintach Tutorial Centers; (ii) improving the teaching quality and the research capabilities of our teaching staff; (iii) strengthening collaboration with public schools and other education research institutions; (iv) organizing workshops, conferences and forums related to education; and (v) conducting training for teaching staff and management teams at our schools.

Teacher Performance Review and Compensation

We conduct periodic teacher performance reviews at our schools and tutorial centers. These assessments are generally conducted by our school principals and management teams, which include in-class observations and evaluation of our teachers' preparation and/or the effectiveness of their classroom instructions. We also implement end-of-contract and/or end-of-probation evaluations to determine whether we continue to retain a teacher. Our evaluations generally focus on a teacher's teaching capabilities and expertise, work attitude and moral qualities. As part of the evaluation process, we also highly encourage students and parents to participate in our teacher satisfaction surveys so we can consider their views and suggestions in our assessments.

We offer competitive compensation to our teachers. Compensation primarily includes a base salary and a performance bonus based on various factors including the number of teaching hours rendered, work experience, teaching quality and students' academic achievement and satisfaction. Except as discussed herein, we also make required contributions to social insurance, housing provident funds and other benefit schemes. See "– Legal Proceedings and Compliance" in this section for details on our failure to make contributions to the social insurance plan and housing provident fund with respect to certain of our employees. In addition, we provide some of our teaching staff at our Shijiazhuang Institute of Technology free or low-cost living arrangements.

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THE DECISION ON AMENDING THE PRIVATE SCHOOLS PROMOTION LAW

Pursuant to the Amendment Decision, the school sponsors of a private school which provides education services other than compulsory education may choose for the school to be a for-profit private school or a non-profit private school with effect from September 1, 2017. The following table sets forth the key differences between a for-profit private school and a non-profit private school under the Amendment Decision:

Item	For-profit Private School	Non-profit Private School
Receipt of operating profits	The school sponsors may obtain operation profits, and the balance of such private school shall be allocated in accordance with relevant laws and regulations, such as the Company Law of the PRC	The school sponsors may not obtain any profits from the school's operation, and all the balance of such private school shall be used on its operation
Fees to be charged	Determined by the for-profit schools themselves based on school operating costs and market demand	Determined pursuant to the standards stipulated by the people's government of the province, autonomous region, or municipality directly under the PRC central government
Tax treatment	Preferential tax treatment as stipulated by the State	Same preferential tax treatment as public schools
Land	Acquired according to the regulations of the State	Acquired through land allocation or other means according to the same principle of public schools
Public funding	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unutilized State-owned assets	Public funding in the form of purchase of services, student loans, scholarships, lease or acquisition of unutilized State-owned assets, and government grants, incentive funds and donations
Liquidation	The remaining assets of a for-profit private school after debt retirement shall be disposed in accordance with relevant provisions of the Company Law of the PRC	The schools' remaining assets after debt retirement shall be used for the operation of other not-for profit schools. For schools established before the promulgation of the Decision, prior to the remaining assets being used as such, school sponsors may apply for compensation or awards from the school's remaining assets after the settlement of the school's indebtedness

In addition to the Amendment Decision, certain implementing rules were jointly promulgated by certain governmental departments at state level in December 2016. The Implementing Rules on Classification Registration of Private Schools 《民辦學校分類登記實施細則》 (“Classification Register Rules”) were issued on December 30, 2016, specifying measures for the establishment and classification registration of private schools, procedures to be followed for existing private schools to register as for-profit or non-profit private schools pursuant to provincial rules to be promulgated by local provincial governments. The Implementing Rules for the Supervision and Administration of For-Profit Private Schools were issued on December 30, 2016, specifying measures regarding the establishment, modification and termination of a for-profit private school, and the educational and teaching related activities and financial management conducted by a for-profit private school. In addition, the Several Opinions on Encouraging Social Support for Education to Promote Private Education were issued on December 29, 2016, specifying policies to be followed to promote private education. Furthermore, the People’s Government of Hebei Province issued the Implementation Opinions on Encouraging Social Support to Promote the Healthy Development of Private Education in January 2018, which introduced a five-year interim period during which time the existing administrative measures should still apply to the existing private schools until September 1, 2022. However, such opinions did not expressly stipulate a specific way for the existing private schools to choose as a for-profit or non-profit school. Please see “Regulatory Overview – The Latest Development of Private School Regulations” and “Summary – Recent Developments” in this prospectus for details.

According to the Classification Register Rules, a private school approved to be established shall apply for a registration certificate or business license in accordance with relevant regulations after being granted with an operating license by competent government authorities. There is no difference in the application process for operating license for for-profit private schools and non-profit private schools. However, the application for registration certificates or a business license, as the case may be, from for-profit private schools and non-profit private schools shall be submitted with different authorities according to the Classification Register Rules: (i) non-profit private schools which meet the requirements under the Interim Administrative Regulations on the Registration of Private Non-enterprise Entities (民辦非企業單位登記管理暫行條例) and other relevant regulations need to apply to the civil affairs department for registration as private non-enterprise entities, and (ii) non-profit private schools which meet the requirements under the Interim Regulations on the Administration of the Registration of Public Institutions (事業單位登記管理暫行條例) and other relevant regulations need to apply to the relevant administrative authority for registration as public institutions, while (iii) for-profit private schools need to apply to the industry and commerce department for registration in accordance with the jurisdiction provisions set out by relevant laws and regulations.

On December 15, 2017, with assistance of our PRC Legal Advisor, we had an interview with the Education Department of Hebei Province (河北省教育廳) during which an official of the Policy and Regulations Office (政策法規處) at the Education Department of Hebei Province informed us that: (i) the Amendment Decision and the implementing rules as disclosed in “Regulatory Overview – The Latest Development of Private School Regulations” in this prospectus only provide principle guidelines without any detailed procedures as to the registration for for-profit and not-for-profit schools, and it shall be the responsibility of the people’s government at the provincial level to formulate the specific measures, and that such specific measures have not yet been published in Hebei Province; and (ii) so long as our schools follow such detailed procedures contained in the specific measures when they are published and become effective, a new operating license will be granted. As advised by our PRC Legal Advisor, (i) the interviewed authority was a competent authority and the interviewed person was a competent official to issue the abovementioned confirmation; and (ii) there will be no legal impediment in obtaining new operating licenses after our schools following the detailed procedures contained in the specific measures when published and becoming effective.

Although the Amendment Decision took effect on September 1, 2017, according to the Amendment Decision, the detailed rules and regulations regarding the conversion of existing private schools into for-profit or non-profit schools shall be promulgated by the local provincial government authorities. However, as such detailed rules and regulations have not been promulgated by the local provincial government authorities in Hebei Province, there are uncertainties involved in interpreting and implementing the Amendment Decision with respect to various aspects of the operations of a private school, such as (i) timing of notification to the relevant authorities regarding our decision for our schools to be for-profit or non-profit schools; (ii) procedures to be undergone for a school to become a for-profit school or non-profit school; (iii) respective preferential tax treatment which may be enjoyed by a for-profit school and a non-profit school; and (iv) respective public funding that can be obtained by a for-profit school and a non-profit school.

Under the existing regulatory environment and based on the current interpretation of the Amendment Decision and the relevant implementing measures, we intend to register the schools we currently own and the schools we plan to open and operate as for-profit schools after the Amendment Decision and its implementing measures become effective and practicable, and the detailed local rules and regulations regarding the conversion of existing schools are promulgated by relevant local authorities and take effect. We are unable to fully evaluate at this stage the potential impact of such regulatory charges on our operations, such as tax liabilities our schools may be exposed to if we choose for our schools to be for-profit private schools, and public funding our schools may be able to receive. We will establish and assign the responsibility to a special committee lead by Mr. Liu Zhanjie, our chief executive officer and executive Director, pay close attention to rules and regulations to be promulgated by relevant authorities at all levels regarding interpreting and implementing the Amendment Decision. We will consult with our PRC Legal Advisor when relevant rules and regulations are promulgated regarding the potential impact on all aspects of operation of our school and make relevant public announcements when appropriate.

As of the Latest Practicable Date, our tutorial centers and five of our kindergartens were required to pay enterprise income tax in respect of its revenue from tuition and boarding fees. Please see “Financial Information – Key Components of Our Results of Operations – Taxation – PRC Corporate Income Tax” in this prospectus for details. Pursuant to the Amendment Decision, a non-profit private school may enjoy the same preferential tax treatments as a public school. In addition, pursuant to the Amendment Decision, a for-profit private school may enjoy preferential tax treatments in accordance with relevant PRC laws and regulations. However, the existing PRC laws and regulations and the Amendment Decision have not set forth any details regarding the preferential tax treatments that may be enjoyed by a for-profit private school, including any restriction on tax exemption amount or preferential tax rate. Each of Shijiazhuang Institute of Technology and the three Saintach Kindergartens which enjoy preferential tax treatment has obtained a confirmation letter from competent authority confirming that the existing preferential tax treatment will remain unchanged during the five-year interim period. Moreover, our PRC Legal Advisor is of the view that, in the event that we decide to convert our schools to for-profit schools, based on the current legal framework, there is insufficient legal basis to determine that Shijiazhuang Institute of Technology, Fukuang Kindergarten, Zhengding Kindergarten and Tianshan Kindergarten will lose the preferential tax treatment currently enjoyed by them. However, the relevant government authorities may promulgate detailed rules and regulations regarding the preferential tax treatments that may be enjoyed by a for-profit private school in the future. There is a possibility that such rules and regulations will reduce or eliminate the preferential tax treatments currently enjoyed by our schools. Please see “Risk Factors – Risks Relating to Conducting Business in China – The discontinuation of any preferential tax treatment currently available to us, in particular the tax exempt status of our schools, could materially and adversely affect our results of operations” in this prospectus for details.

If in the future all of our schools became no longer entitled to preferential tax treatment under the Amendment Decision, our corporate tax rate would be 25.0% in the worst case scenario and our net profit would be expected to decrease by approximately 23.5% compared to that of the current situation, without taking any other variables into account.

COMPETITION

The education industry in China is rapidly developing. According to the Frost & Sullivan Report, the private education market in China is highly competitive and fragmented. As we operate in Hebei Province, China, we face competition from national public and private schools in China, in particular from those that operate in the same geographic area. We believe our principal competitive advantages include:

- the reputation of each of our schools;
- our extensive operating experience;
- high employment rate of the graduates of our college;
- the scope and quality of our education programs, services and offerings, including providing diverse education services to all age groups from kindergarten to college;
- overall student experience;
- students' academic performance;
- our relationships with overseas schools;
- parents' satisfaction;
- ability to attract and retain qualified teachers; and
- research and development capabilities.

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

CUSTOMERS AND SUPPLIERS

Our customers primarily consist of our students and their parents, Lionful Education on behalf of whom we provide school operation services, third-party educational institutions with whom we have cooperated and our franchised kindergartens. For the years ended December 31, 2015, 2016 and 2017, our top five customers accounted for approximately 13.1%, 14.0% and 14.5% of our revenue, respectively. Our largest customer during the Track Record Period, Lionful Education, was a related party of our Group and accounted for approximately 12.1%, 12.3% and 10.6%, respectively, of our total revenue. In addition, one of our top five customers in 2016, Shijiazhuang City Luquan District University Town Management Company (石家莊市鹿泉區大學城管理公司) (“University Town Management Company”), had previously been a related party of our Group but became an Independent Third Party in 2016. We derived revenues from University Town Management Company for granting it the right to manage our canteen at Shijiazhuang Institute of Technology starting in 2017. Such revenue accounted for approximately 1.1% of our total revenue for the year ended December 31, 2017. Other than Lionful Education, we did not have

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any single customer who accounted for more than 5% of our revenue for each of the years ended December 31, 2015, 2016 and 2017. Save as disclosed above, none of our Directors, their associates or our Shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital had any interest in any of the five largest customers during the Track Record Period and up to the Latest Practicable Date.

Our suppliers primarily comprise food, utilities and property service providers. For the years ended December 31, 2015, 2016 and 2017, purchases recorded in the cost of sales account from our five largest suppliers amounted accounted for approximately 7.7%, 6.3% and 7.5%, respectively, of our cost of sales. Purchases from our largest supplier during the Track Record Period, Hebei Xin'anyi Trade Co., Ltd. (河北新安宜商貿有限公司), a major food supplier for our Saintach Kindergartens who had previously been a related party of our Group but became an Independent Third Party in 2015, accounted for approximately 3.4%, 2.1% and nil, respectively, of our cost of sales for the years ended December 31, 2015, 2016 and 2017. University Town Management Company started to serve as the major food supplier for Saintach Kindergartens in July 2016, making it one of our top five suppliers in 2016 and 2017. For the years ended December 31, 2016 and 2017, purchases from University Town Management Company accounted for 0.9% and 2.3%, respectively, of our cost of sales. Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, none of our Directors, their associates or our Shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital had any interest in any of the five largest suppliers.

INTELLECTUAL PROPERTY

We recognize the importance of protecting and enforcing intellectual property rights and rely on intellectual property laws and related registration procedures to protect our intellectual property rights. Hebei Saintach has been operating under three PRC registered trademarks as set out as trademarks number 1, 2 and 3 in “C. Further Information about Our Business – 2. Intellectual property rights of our Group – Trademarks” in Appendix V to this prospectus (the “Trademarks”) to conduct its business for many years. The registered proprietor of such Trademarks was transferred from Lionful Investment Holding, a related party controlled by our Controlling Shareholders, to Hebei Saintach in December 2017.

On January 14, 2016, Hebei Saintach entered into a trademark transfer agreement with Lionful Investment Holding, pursuant to which (i) Lionful Investment Holding transferred the Trademarks to Hebei Saintach at a consideration of RMB1.00, and (ii) Lionful Investment Holding granted Hebei Saintach as well as its holding company, subsidiaries and educational institutions sponsored by it and fellow subsidiaries, a license on exclusive use of the Trademarks for nil consideration and our Group was licensed to use the Trademarks in the PRC for our business operation. The transfer of registered proprietor of the Trademarks was completed on December 21, 2017.

In addition to the Trademarks, we have another four trademarks owned by Hebei Saintach in the PRC and have applied for the registration of one trademark in the PRC to be owned by Hebei Saintach as of the Latest Practicable Date as set out in “C. Further Information about Our Business – 2. Intellectual property rights of our Group – Trademarks” in Appendix V to this prospectus. Furthermore, we have registered one trademark in Hong Kong as of the Latest Practicable Date. We have also registered six domain names, including four domain names registered by Hebei Saintach, one registered by Shijiazhuang Institute of Technology and one registered by Zerui Education. Please see “C. Further Information about Our Business – 2. Intellectual property rights of our Group” in Appendix V to this prospectus for details.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property disputes or infringement claims which had any material impact on our Group. Please also see “Risk Factors – Risks Relating to Our Business and Our Industry – We may face disputes from time to time relating to the intellectual property rights of third parties” in this prospectus for details.

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AWARDS AND RECOGNITION

We have received a number of awards and other commendations since our establishment in recognition of the quality of education we provide and the outstanding achievements of our management. The following table sets forth some of the awards and recognition we have received:

Year	Award/Accreditation	Awarding Organization	Awarded Entity
2017	Outstanding Organization Award* (優秀組織獎)	The Preschool Education Professional Committee of Chinese Association for Non-Government Education* (中國民辦教育協會學前教育專業委員會)	Hebei Saintach
2017	Outstanding Private School in the 2016 Annual Inspection* (2016年檢優秀民辦學校)	Education Department of Hebei Province	Shijiazhuang Institute of Technology
2017	Shijiazhuang Private Education Brand School* (石家莊市民辦教育品牌學校)	Shijiazhuang Association of Private Education* (石家莊市民辦教育協會)	Chang'an Tutorial School and Qinghui Kindergarten
2015	Outstanding School for Private Education in 2015* (2015年度民辦教育工作優秀學校)	Qiaoxi Education Bureau	Qiaoxi Tutorial School
2015	Outstanding Quality Private Kindergarten* (民辦優質特色幼稚園)	The Preschool Education Professional Committee of Chinese Non-Government Education Association	Qinghui Kindergarten
2015	Chang'an District Outstanding Institution for Preschool Education in 2015* (2015年度長安區學前教育先進單位)	Chang'an Education Bureau	Qinghui Kindergarten
2014	Outstanding School for Private Education in 2014* (2014年度民辦教育工作優秀學校)	Qiaoxi Education Bureau	Qiaoxi Tutorial School
2014	City's Tier-one Kindergarten* (城市一類幼稚園)	by Shijiazhuang Education Bureau* (石家莊市教育局)	Qinghui Kindergarten
2013	City's Tier-one Kindergarten* (城市一類幼稚園)	by Shijiazhuang Education Bureau* (石家莊市教育局)	Blue Crystal Kindergarten

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A number of our teachers have also been recognized for their outstanding achievements and their contributions to the outstanding performance of our students. The following table sets forth some of the awards and recognition our teachers have received:

Year	Award/Accreditation	Awarding Organization	Awarded Teachers
2017	Outstanding Private Education Worker in Shijiazhuang* (石家莊市民辦教育先進工作者)	Shijiazhuang Association of Private Education* (石家莊市民辦教育協會)	Ms. Qiao Huiyan (喬會艷) of Zhicheng Tutorial School, Ms. Wu Yingyan (吳英艷) of Shijiazhuang Saintach, Ms. Cheng Yan (程燕) of Shijiazhuang Saintach and Ms. Yang Shanshan (楊珊珊) of Blue Crystal Kindergarten
2017	Outstanding Teacher for Private Education in Shijiazhuang* (石家莊市民辦教育優秀教師)	Shijiazhuang Association of Private Education* (石家莊市民辦教育協會)	Ms. Zhao Shuangyan (趙雙燕) of Chang'an Tutorial School, Mr. Guo Xiankai (郭現凱) of Donggang Tutorial School, Mr. Ma Shengxiang (馬勝響) of Donggang Tutorial School and Ms. Sun Huan (孫歡) of Blue Crystal Kindergarten
2014	Contribution Award for Preschool Education Development* (學前教育發展貢獻獎)	Chang'an Education Bureau	Ms. Wang Lijing (王利靜) of Hebei Saintach
2014	Outstanding School Principal	Qiaoxi Education Bureau	Ms. Yang Shanshan (楊珊珊) of Blue Crystal Kindergarten

We have also been invited to become members or committee members of certain educational associations. The following table sets forth some of the positions we or members of our management currently hold:

Seat or Membership	Organization	Entity/Personnel
Director	Preschool Education Specialty Committee of PRC Private Education Association* (中國民辦教育協會學前教育專業委員會)	Zhang Yongbin (張永斌) and Wang Lijing (王利靜) of Hebei Saintach
Vice Minister Member (副部長單位)	Senior Vocational Education Division of the Higher Education Specialty Committee of PRC Non-government Education Association* (中國民辦教育協會高等教育專業委員會高職工作部)	Shijiazhuang Institute of Technology

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Seat or Membership	Organization	Entity/Personnel
Standing Vice Chairman (常務副會長)	Hebei Private Education Association* (河北省民辦教育協會)	Liu Cai (劉才) of Shijiazhuang Institute of Technology
Standing Committee Member	Special Committee for Preschool Education of the Chinese Association for Private Education* (中國民辦教育協會學前教育專業委員會)	Hebei Saintach
Vice Chairman Member (副會長單位)	Shijiazhuang Private Education Association* (石家莊民辦教育協會)	Shijiazhuang Saintach
Director	Hebei Community Education Training Society Family Education Branch* (河北省社區教育培訓學會家庭教育分會)	Shijiazhuang Saintach

EMPLOYEES

As of December 31, 2015, 2016 and 2017, we had approximately 1,698, 1,466 and 1,830 employees, respectively, including approximately 470, 435 and 701 teachers who worked with us on a part-time basis. The following table sets forth the total number of employees by function as of the Latest Practicable Date:

Function	Number of Employees	% of Total
Teachers ⁽¹⁾	1,045	65.3%
Recruitment and marketing personnel	99	6.2%
Management and administrative staff	416	26.0%
Logistics personnel	40	2.5%
Total	1,600	100%

Note:

(1) Includes 605 full-time and 440 part-time teachers.

As required by relevant PRC laws and regulations, we participate in various employee social security plans for our employees that are administered by local governments, including but not limited to, housing, pension, medical insurance and unemployment insurance. For further details of our compliance with the relevant social insurance and housing provident fund regulations, please see “– Legal Proceedings and Compliance” in this section. We believe we maintain a good working relationship with our employees, and we have not experienced any material labor disputes during the Track Record Period. Furthermore, our Shijiazhuang Institute of Technology has established a labor union and our employees may join the labor union voluntarily. During the Track Record Period, we have not experienced any material labor union disputes.

We believe the quality of our education is strongly tied to the quality of our teachers. We have implemented training and recruitment policies in order to uphold the quality of our teachers. Please also see “– Our Teachers” in this section for details of our training and recruitment policies for our teachers.

PROPERTIES

As of the Latest Practicable Date, we and Lionful Education jointly owned one parcel of land in the PRC with a total gross site area of approximately 284,459 sq.m. and we owned buildings with a total gross floor area of approximately 36,154.54 sq.m. All of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. The total market value of our property interests as of December 31, 2017 was RMB170,230,000 based on the assumption that the property could be freely transferred as provided in the property valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. As of the Latest Practicable Date, we also leased 34 properties with a total gross floor area of approximately 87,479 sq.m. As of the Latest Practicable Date, all of the properties we own or occupy were considered as public welfare facilities and none of such properties was pledged.

Owned Properties

Land

As of the Latest Practicable Date, we jointly owned land use rights with Lionful Education for one parcel of state-owned construction land located in Luquan Economic Development Area for Shijiazhuang Institute of Technology with a gross site area of approximately 284,459 sq.m. Such land has been used for educational purposes. According to our PRC Legal Advisor, Shijiazhuang Institute of Technology has obtained the title certificate for the land occupied by it, and legally and jointly owned the land use rights to such land with Lionful Education. The land use right will expire on April 17, 2052.

According to an agreement between Lionful Education and Shijiazhuang Institute of Technology, disposal of the land use rights related to the aforesaid state-owned construction land is subject to unanimous written consent by both Lionful Education and Shijiazhuang Institute of Technology. As such, neither Lionful Education nor Shijiazhuang Institute of Technology is entitled to dispose of their land use rights without the prior written consent from the other party.

Buildings

As of the Latest Practicable Date, we had building ownership certificates for two teaching buildings with a gross floor area of approximately 36,154.54 sq.m. owned by Shijiazhuang Institute of Technology. The existing usage of these buildings have been registered as “others”. According to our PRC Legal Advisor, Shijiazhuang Institute of Technology has legally owned the building ownership rights of these buildings.

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Leased Properties

As of the Latest Practicable Date, we leased 34 properties with a total gross floor area of approximately 87,479 sq.m. for our operations.

Set out below are details of the lease arrangements of our Saintach Tutorial Centers and Saintach Kindergartens as of the Latest Practicable Date:

No.	Lessee	Lease Term	Rent
1.	Zhicheng Tutorial School	December 1, 2016 to November 30, 2018 ⁽¹⁾	RMB489,621.22 per annum
2.	High-tech Zone Tutorial School	March 18, 2018 to March 17, 2019	RMB37,602 per quarter
3.	Qiaoxi Tutorial School	October 18, 2016 to October 17, 2018 ⁽¹⁾	RMB259,426 in total
4.	Huixuan Tutorial School	March 27, 2018 to March 26, 2019 for Saintach Tutorial Center A	RMB78,500 per semi-annual
		October 1, 2017 to September 30, 2022 for Saintach Tutorial Center B	RMB992.4 per day
5.	Chang'an Tutorial School (consisting of four Saintach Tutorial Centers)	July 1, 2017 to June 30, 2020 for Saintach Tutorial Center C	RMB63,000 per quarter
		April 1, 2018 to March 31, 2019 for Saintach Tutorial Center D	RMB13,500 per month
		May 11, 2018 to May 12, 2019 for Saintach Tutorial Center E	RMB21,600 per month
		March 21, 2016 to March 20, 2019 for Saintach Tutorial Center F	RMB15,000 per month
6.	Donggang Tutorial School (consisting of two Saintach Tutorial Centers)	April 27, 2016 to April 26, 2021 for Saintach Tutorial Center G	RMB470,000 per annum
		November 1, 2016 to October 31, 2019 for Saintach Tutorial Center H	RMB25,000 per month
7.	Zhengding Kindergarten	February 6, 2016 to February 5, 2021	RMB10,850 per annum
8.	Fumenli Kindergarten	April 1, 2014 to March 31, 2032	RMB400,000 per annum, subject to an increase of 9% every two years

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No.	Lessee	Lease Term	Rent
9.	Tianshan Kindergarten	August 10, 2012 to August 9, 2022	RMB530,000 per annum, subject to an increase of 5% every two years
10.	Lidu Kindergarten	September 14, 2015 to September 13, 2021	RMB450,000 per annum for each of the first three years; RMB472,500 per annum for the fourth, fifth and sixth years
11.	Jianhua Kindergarten	August 1, 2013 to July 31, 2022	RMB200,000 per annum for the first year; RMB480,000 per annum for the second, third, fourth and fifth years; RMB540,000 per annum for the sixth, seventh, eighth and ninth years
12.	Fukang Kindergarten	October 1, 2010 to December 31, 2018 ⁽¹⁾	RMB130,000 per annum for each of the first three years; RMB156,000 per annum for the fourth and fifth years; RMB182,000 per annum for the sixth and seventh years; RMB208,000 per annum for the eighth year
13.	Qinghui Kindergarten	Three years (See “Connected Transactions – Non-exempt Continuing Connected Transactions – Saintach Kindergartens Property Lease Agreements” for further details)	Expected to be no more than RMB250,000 per annum (See “Connected Transactions – Non-exempt Continuing Connected Transactions – Saintach Kindergartens Property Lease Agreements” for further details)
14.	Blue Crystal Kindergarten	Three years (See “Connected Transactions – Non-exempt Continuing Connected Transactions – Saintach Kindergartens Property Lease Agreements” for further details)	Expected to be no more than RMB250,000 per annum (See “Connected Transactions – Non-exempt Continuing Connected Transactions – Saintach Kindergartens Property Lease Agreements” for further details)

Note:

(1) We will renew the lease term one month before it expires for these tutorial centers.

As of the Latest Practicable Date, certain lease agreements we entered into with our landlords had not been registered with relevant PRC government authorities. Our leases typically had a lease term ranging from six months to 15 years. As advised by our PRC Legal Advisor, Jingtian & Gongcheng, the validity and enforceability of the lease agreements are not affected by the failure to register or file the lease agreements with the relevant government authorities. However, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. As of the Latest Practicable Date, we had not received any such request from the relevant government authorities.

For further details on the risks associated with our leased properties, please see “Risk Factors – Risks Relating to our Business and our Industry – We lease several of our school premises and may not be able to control the quality, maintenance and management of these school premises, nor can we ensure we will be able to find suitable premises to replace our existing school premises in the event our landlords refuse to renew the relevant lease agreements upon the expiry of their terms” in this prospectus.

Regulatory Guidance Relating to the Ratios between School Site Area/Building Area and Number of Enrolled Students

As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, our Shijiazhuang Institute of Technology (not including the west campus of Sifang College) and Saintach Kindergartens have been subject to regulatory guidance in relation to the ratio between our school’s building area and the number of students enrolled, but there are no similar requirements for our Saintach Tutorial Schools and Saintach Tutorial Centers.

According to the Basic Conditions for Operating Higher Education Institutions (Trial) (普通高等學校基本辦學條件指標(試行)) promulgated by the MOE on February 6, 2004, for a technology school providing higher vocational education, the ratio between its teaching and administrative building area and its number of students should not be lower than nine sq.m. per student. Under the above regulation, for a technology school providing higher vocational education, the ratio between its school site area and its number of students should not be lower than 59 sq.m. per student, and such ratio belongs to monitoring index, which is a supplement to the basic index and primarily reflects improvements to the operation conditions of such institution. Such index provides significant guidance on improving the teaching quality and the information technology of such educational institutions. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, the relevant legislation does not state any legal consequences for a breach of the monitoring index.

As of December 31, 2015, 2016 and 2017, the ratio between the teaching and administrative building area and students enrolled by Shijiazhuang Institute of Technology (not including the west campus of Sifang College) was approximately 14.0 sq.m./student, 14.2 sq.m./student and 11.7 sq.m./student, which had complied with the aforesaid requirements. As of December 31, 2015, 2016 and 2017, the ratio between the school site area and students enrolled by Shijiazhuang Institute of Technology (not including the west campus of Sifang College) was approximately 37.0 sq.m./student, 37.5 sq.m./student and 30.9 sq.m./student, lower than the aforesaid monitoring index by 22.0 sq.m./student, 21.5 sq.m./student and 28.1 sq.m./student, respectively. With regard to the west campus of Sifang College, Sifang College is responsible for ensuring compliance with regulatory guidance regarding school site area/building area and number of enrolled students, and Shijiazhuang Institute of Technology is not responsible for such compliance.

Under the Basic Standards for Private Kindergartens in Hebei Province (Ji Jiao Zheng Fa [2013] No. 56) (河北省民辦幼兒園設置基本標準(冀教政法[2013]56號)) promulgated by the Education Department of Hebei Province (河北省教育廳) in 2013, the ratio between building area of a private kindergarten and its

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number of students should not be lower than 3.5 sq.m. per student. As of December 31, 2015, 2016 and 2017, the ratio between the building area and the students enrolled by Saintach Kindergartens was approximately 7.5 sq.m./student, 5.94 sq.m./student and 5.71 sq.m./student, which had complied with the aforesaid regulatory requirements.

On March 28, 2018, with the assistance of our PRC Legal Advisor we had an interview with an official at the Education Department of Hebei Province, being the competent and responsible authorities for supervising Shijiazhuang Institute of Technology. The official confirmed that failure to comply with the monitoring index relating to the ratio between the school site area and number of students, being not lower than 59 sq.m., will not subject Shijiazhuang Institute of Technology to any fines or penalties and its student enrollment will not be adversely affected. Our PRC Legal Advisor have advised us that the official we interviewed is familiar with the regulations governing the site area and its number of enrolled students of such institution and the implementation requirements of such regulations. Based on the foregoing, our PRC Legal Advisor is of the view that this official has the authority to comment on whether Shijiazhuang Institute of Technology is in compliance with the relevant regulations and the relevant legal consequences for any non-compliance.

In addition, Shijiazhuang Institute of Technology passed each of the annual inspections conducted by the relevant education authorities during the Track Record Period. It also obtained a confirmation from the Education Department of Hebei Province on March 27, 2018, which confirmed that from January 1, 2014 to the date of the confirmation, Shijiazhuang Institute of Technology has complied with relevant state and provincial regulations with regard to private education and there was no record of administrative punishment in its private education business.

Based on the foregoing, our PRC Legal Advisor is of the view that not reaching the ratio between the site area and the number of students does not constitute a non-compliance incident. In addition, the admission quota for our Shijiazhuang Institute of Technology is granted by the relevant PRC authorities every year from 2014-2015 school year to 2017-2018 school year. Our Directors believe that the relevant PRC authorities would not have granted the admission quotas to our Shijiazhuang Institute of Technology in these years if they had deemed the failure to comply with the prescribed ratio between site area and the number of enrolled students to be a non-compliance. Our Directors are of the view that the fact that Shijiazhuang Institute of Technology did not reach the prescribed ratio between site area and the number of students enrolled is not an incidence of non-compliance.

INSURANCE

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

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LICENSES AND PERMITS

Our PRC Legal Advisor, Jingtian & Gongcheng, has advised that as of the Latest Practicable Date, we had obtained all licenses, permits, approvals and certificates necessary to conduct our operations in all material respects from the relevant government authorities in the PRC, and such licenses, permits, approvals and certificates remained in full effect.

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

License/Permit	Holder	Granting authority	Grant date	Expiry date ⁽¹⁾
Private school operating license	Shijiazhuang Institute of Technology	Hebei Education Bureau	2017	2019
Private school operating license	Qiaoxi Tutorial School	Qiaoxi Education Bureau	February 25, 2013	Subject to annual inspection
Private school operating license	Zhicheng Tutorial School	Qiaoxi Education Bureau	January 15, 2015	Subject to annual inspection
Private school operating license	Donggang Tutorial School	Yuhua Education Bureau	January 12, 2016	Subject to annual inspection
Private school operating license	Chang'an Tutorial School	Chang'an Education Bureau	December 15, 2012	Subject to annual inspection
Private school operating license	Huixuan Tutorial School	Xinhua Education Bureau	June 2016	Subject to annual inspection
Private school operating license	High-tech Zone Tutorial School	Examination and Approval Bureau of Shijiazhuang Hi-tech Industrial Developmental Zone* (石家莊高新技術產業開發區審批局)	November 22, 2016	November 21, 2020
Private school operating license	Lidu Kindergarten	Qiaoxi Education Bureau	November 2016	Subject to annual inspection
Private school operating license	Tianshan Kindergarten	Examination and Approval Bureau of Shijiazhuang Hi-tech Industrial Developmental Zone	October 28, 2016	October 27, 2020
Private school operating license	Jianhua Kindergarten	Chang'an Education Bureau	March 3, 2017	Subject to annual inspection
Private school operating license	Qinghui Kindergarten	Chang'an Education Bureau	January 15, 2015	Subject to annual inspection

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License/Permit	Holder	Granting authority	Grant date	Expiry date ⁽¹⁾
Private school operating license	Zhengding Kindergarten	Zhengding Education Bureau	November 11, 2016	Subject to annual inspection
Private school operating license	Fumenli Kindergarten	Zhengding Education Bureau	October 2014	Subject to annual inspection
Private school operating license	Fukang Kindergarten	Luquan Education Bureau	January 28, 2015	Subject to annual inspection
Private school operating license	Blue Crystal Kindergarten	Qiaoxi Education Bureau	April 1, 2015	Subject to annual inspection

Note:

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

HEALTH AND SAFETY MATTERS

We are dedicated to protecting the health and safety of our students. There is an infirmary at Shijiazhuang Institute of Technology, while we also have on-site medical staff or health care personnel at each of our other schools (other than tutorial centers) to handle routine medical situations involving our students. In case of certain serious and emergency medical situations, we will promptly send our students to local hospitals for treatment.

With respect to school safety, we engaged third-party service providers to provide security patrol at Shijiazhuang Institute of Technology and certain of our Saintach Kindergartens to ensure the safety of our students at our school premises, while we have installed video surveillance systems for each of our tutorial centers.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any serious accident, medical situation or safety issue involving our students or staff.

LEGAL PROCEEDINGS AND COMPLIANCE

From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business. During the Track Record Period and up to the Latest Practicable Date, we did not commit any material non-compliance of the laws or regulations, and we did not experience any systemic non-compliance incidents, which taken as a whole, in the opinion of our Directors, are likely to have a material and adverse effect on our business, financial condition or results of operations. Our PRC Legal Advisor, Jingtian & Gongcheng, is of the opinion that, other than disclosed in this prospectus, we have complied with all relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

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

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Set forth below is a summary of our non-compliance matter during the Track Record Period and up to the Latest Practicable Date, as well as rectification actions and preventive measures that we have taken in respect of such matter:

Non-compliance incident	Reasons for the non-compliance	Legal consequences and potential maximum penalties	Remedies and rectification measures taken to prevent future breach and ensure ongoing compliance	Potential impact on our operations and financial condition
In 2015, 2016 and up to January 2017, we failed to make any contributions to the social insurance plans and housing provident fund with respect to certain of our employees. During the Track Record Period and up to August 2017, we failed to make full contributions to the social insurance plans and housing provident fund for some of our employees. We estimate that the aggregate amount of social insurance payments and housing provident fund contributions that we did not pay during the years ended December 31, 2015, 2016 and 2017 was approximately RMB15.4 million, RMB14.1 million and RMB10.4 million, respectively. In the view of our Directors, our Group has made adequate provision for social insurance and the housing provident fund as at the end of each reporting period. As of the Latest Practicable Date, these amounts remained unsettled.	The non-compliance was primarily caused by administrative oversight and our local human resources personnel being unfamiliar with relevant regulatory requirements, different levels of acceptance of the social insurance scheme by our employees and inconsistent implementation or interpretation by local authorities in the PRC of the relevant regulations.	Our PRC Legal Advisor, Jingtian & Gongcheng, has advised us that, under the relevant PRC laws and regulations, late fees and fines could be imposed on an employer for not making full social insurance payments for employees in a timely manner. If any competent PRC government authority is of the view that the social insurance payments we made for our employees breached the requirements under the relevant PRC laws and regulations, it can order us to pay the outstanding balance to the relevant PRC local authorities within a prescribed time period plus a late fee of 0.05% of the total outstanding balance per day. If we fail to do so within the prescribed period, we may be subject to a fine ranging between one to three times of the total outstanding balance. Our PRC Legal Advisor has also advised us that, the employer who fails to pay the housing provident fund or does not fully pay the housing provident fund will be ordered to pay the unpaid requisite housing provident fund within the prescribed time limit as required by the relevant administrative authorities, and in the event that the employer fails to make payment within the prescribed time limit, the relevant administrative authorities are entitled to apply for enforcement orders from the relevant PRC's court.	As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC government authorities with respect to this non-compliance incident, nor has any order been received by our Company to settle the outstanding amount of social insurance payments and housing provident fund contributions. We have obtained written confirmation letters from relevant local human resources and social security bureaus and housing provident fund centers confirming that: (a) they would not require us to pay the outstanding balance during the Track Record Period; and (b) no penalties are expected to be imposed upon us. In addition, our executive Directors and other responsible staff of our Group attended a training session conducted by our PRC Legal Advisor in August 2017 with respect to the applicable PRC laws and regulations to prevent recurrence of such non-compliance incident. We had made social insurance and housing provident fund contributions for all of our employees in accordance with the applicable laws and regulations starting in January 2017. In addition, as requested by the competent authorities, starting in August 2017, we had made full contributions to the social insurance plans and housing provident fund for our employees as agreed with the relevant competent authorities and according to the relevant laws and regulations.	Our PRC Legal Advisor is of the view that although our contributions have not been in strict compliance with relevant regulations, on the basis of the confirmation from the competent authorities, the possibility of us being required to make outstanding payments by the competent authorities is remote. In light of the confirmation from the competent authorities and the advice from our PRC Legal Advisor, our Directors do not believe that we have to make any payment for the outstanding balance of social insurance payments and housing provident fund contributions. In light of the foregoing, and given the remedies and rectification measures taken, our Directors are of the view that this non-compliance incident has no material impact on our operations and is not material to our business operation and does not reflect negatively on the ability or tendency of us, our Directors or our senior management, to operate in a compliant manner.

Enhanced Internal Control Measures to Prevent Recurrence of Non-compliance

In order to continuously improve our corporate governance and to prevent recurrence of non-compliance in the future, our Group intends to adopt or have adopted the following measures:

- (i) we have designated Messis Capital Limited, who is experienced in compliance issues of listed company in Hong Kong, to assist our Board to ensure due compliance of laws, rules and regulations applicable to our Group in Hong Kong;
- (ii) we will provide our Directors and senior management and human resources personnel with training regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;
- (iii) we will appoint external Hong Kong and PRC legal counsel to advise us on compliance with the Listing Rules and the applicable laws and regulations in Hong Kong and the PRC, respectively, and our General Counsel will be the primary point of contact to liaise with our external legal counsel;
- (iv) we will establish an audit committee to oversee our corporate governance and compliance prior to the Listing; and
- (v) the manager of the human resources department of our Group will review the reporting and contributions of social insurance and housing provident fund for the employees of our Group and report to the chief financial officer of our Group on a regular basis.

Views of our Directors and the Sole Sponsor

Our Directors are of the view that the occurrence of the non-compliance incidents were principally due to the lack of knowledge of and familiarity with the applicable legal requirements rather than any material deficiencies in our internal control system. As part of the listing process, our Directors have undergone directors' training and have also engaged Hong Kong and PRC legal advisors to advise them on applicable legal or regulatory requirements. After considering the above rectification and improvement actions taken by our Group, our business nature and operation scale, our Directors are satisfied that our internal control system is adequate and effective for our current operation environment and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules. In addition, after making enquiries of the management of our Company and interviewing its internal control consultant regarding our internal control system, nothing has come to the Sole Sponsor's attention that our Company's enhanced internal control measures are inadequate and ineffective. Based on the above, the Sole Sponsor is of the view that these past non-compliance incidents do not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules.

SETTLEMENT THROUGH EMPLOYEES' PERSONAL BANK ACCOUNTS**Background**

In the past, there have been instances in which personal bank accounts of our employees were used for business transactions on behalf of our Group to receive funds, in particular tuition (including tutoring fees) and boarding fees from existing and new students and their parents. The decision to use personal bank accounts in the past was primarily made for the convenience of our students and their parents. According to the Frost & Sullivan Report, it is not uncommon for private schools in China to use employees' personal bank accounts for the settlement of corporate funds. Banks in China are generally open five days a week (Monday to Friday) to process transactions of corporate clients and seven days a week to process transactions of individual clients. Chinese banks generally would only process transactions of corporate clients during their office hours (being 9:00 a.m. to 5:00 p.m.) while they would process transactions of individual clients during their non-office hours when the transactions are carried out through automated teller machines, debit cards or online banking services. The use of personal bank accounts allowed us to process students' payments in a prompt and flexible manner and prevent us from losing any potential students.

During the Track Record Period, a total of 10 personal bank accounts (the "Personal Accounts") under the names of six employees were used, upon the prior approval by our Group and carefully kept and safeguarded by the designated personnel of the respective schools and tutorial centers, for the settlement of corporate funds, including receipt of tuition (including tutoring fees) and boarding fees from our students and their parents (the "Arrangements"). The use of such Personal Accounts was strictly restricted to business purposes only.

Transaction Amounts Involved and Cessation of the Arrangements

All of our Personal Accounts were only used for receiving payments from our students and their parents and we did not make any payments through such Personal Accounts except transfers to our corporate bank accounts. For the years ended December 31, 2015, 2016 and 2017, funds received through such Personal Accounts amounted to approximately RMB15.2 million, RMB5.8 million and nil, respectively, representing 2.6%, 0.9% and nil, respectively, of the total amount received through all of our bank accounts, including both corporate accounts and the Personal Accounts.

As of October 31, 2016, we had ceased the use of all Personal Accounts. All bank balances in the 10 Personal Accounts had been subsequently transferred to our corporate bank accounts, with the total balance in the Personal Accounts being nil as of December 31, 2016. Our Directors have confirmed that all payments received from our students and their parents through the Personal Accounts (i) involved no illegal income; (ii) were fully supported by genuine transactions along with the underlying transaction documents; and (iii) involved no intent of tax evasion as all amounts received were duly accounted for in our tax filings. Our Directors have also confirmed the accuracy and completeness of our accounting books and records in all material respects.

Our Directors also consider that the cessation of the use of Personal Accounts did not have nor will have any material adverse effect on our business operations and financial results, taking into account that (i) the use of such Personal Accounts was only transitional and in line with the market practice; (ii) the operations of all our schools and tutorial centers remained normal after such cessation; and (iii) the total amount of payments received through the Personal Accounts accounted for a relatively small percentage of the total amount received by our Group during the Track Record Period.

Ownership of the Funds in the Personal Accounts

All six employees entered into written agreements with our Group which specified that, during the use of the Personal Accounts, our Group was the true beneficial owner of the funds deposited into the Personal Accounts, and the funds should be used solely for the purposes of our Group. Each of the employees also executed a written confirmation in June 2017 to retrospectively confirm that each of them had held the funds in their respective Personal Accounts on behalf and for the benefit of our Group during the Track Record Period and had never used such funds for their personal benefit.

Our PRC Legal Advisor, Jingtian & Gongcheng, has advised that we are the legal owner of such funds and have the right to own and use the funds in the Personal Accounts.

No Tax Evasion or Violation of PRC Tax Laws and Regulations

We have obtained tax compliance certificates from the local tax authorities for all relevant schools and tutorial centers, confirming that all such schools and tutorial centers are not in violation of PRC laws and regulations in relation to tax, and have not been imposed any penalties during the Track Record Period. As advised by our PRC Legal Advisor, such local tax authorities are the competent government authorities to issue such confirmation. We also transferred all balances in the Personal Accounts to our corporate accounts. Our PRC Legal Advisor is of the view that, based on the above facts and the tax compliance certificates from the relevant competent tax authorities, it is unlikely that the Arrangements would be regarded as involving any tax evasion by our Group.

Legal Implications of the Arrangements

As advised by our PRC Legal Advisor, according to the Measures for the Administration of RMB Bank Settlement Accounts (人民幣銀行結算賬戶管理辦法), if an entity settles its corporate funds through a personal bank account, a warning or fine ranging between RMB5,000 to RMB30,000 will be imposed upon such entity.

Our Directors have confirmed that the use of Personal Accounts and the parties concerned did not involve any illegal income. As of the Latest Practicable Date, no fine or other penalties had been imposed by the relevant government authorities with respect to the Arrangements. For details of risks associated with the Arrangements, please see “Risk Factors – Risks Relating to Our Business and Our Industry – We used personal bank accounts for the settlement of corporate funds, which may subject us to penalties” in this prospectus. Our PRC Legal Advisor has advised us that, we may be subject to the aforementioned penalties as a result of the Arrangements, however, given the use of Personal Accounts had been ceased completely and no warning nor penalties were imposed upon us during the Track Record Period, the legal risks that we will be imposed any fines or penalties by the relevant government authorities in the future with respect to the Arrangements are low. Based on the fact that we had ceased the use of all Personal Accounts and taking into account of our PRC Legal Advisor’s opinions, our Directors are of the view that the use of Personal Accounts did not have and will not have a material adverse effect on our business operations or financial conditions as a whole.

Internal Control Measures regarding the Use of Personal Accounts

During the Track Record Period, we have set forth the same internal control policies for the Personal Accounts as those for our corporate accounts to (i) ensure that all funds deposited into the Personal Accounts were used solely for our operations in accordance with the relevant PRC laws and regulations and were not misappropriated by any entity or individual; (ii) segregate the duties of authorizing, executing, monitoring and bookkeeping of fund transfer from and to the Personal Accounts; and (iii) prevent incident of fraud and misappropriation of funds. The internal control policies with respect to the Personal Accounts that we have put in place include:

- (i) Personal Accounts under the Arrangements were only allowed to be used upon prior approval of the finance department of our Group;
- (ii) all bank books, debit cards, security devices and passcodes of the Personal Accounts, as applicable, were kept and safeguarded by the designated personnel of the respective schools and tutorial centers and subject to approval of the financial director of our Group;
- (iii) the designated accounting personnel were responsible for monitoring and keeping record of the fund flows on the Personal Accounts and making appropriate accounting entries. Our accounting manager was responsible for reviewing and approving the accounting entries as well as the month-end reconciliation and checking. Such accounting and record keeping procedures in respect of the Personal Accounts were implemented in the same way as that for the corporate accounts of our Group; and
- (iv) all holders of the Personal Account were required to enter into written agreements with our Group, confirming that (a) our Group is the true beneficial owner of the funds deposited into the Personal Accounts, and the funds should be used solely for the purposes of our Group; (b) all rights and obligations associated with the Personal Accounts should be solely owned by our Group; and (c) the holders of the Personal Accounts were not allowed to use, transfer or embezzle the funds in such accounts.

To prevent future recurrence of the use of Personal Accounts for settlement of corporate funds, we have engaged an internal control advisor, Protiviti Shanghai Co., Ltd. (“Protiviti”), a global independent risk and business consulting firm, to review the effectiveness and adequacy of the internal control measures in response to the use of Personal Accounts. We have, based on recommendations from Protiviti, enhanced our internal control measures as follows:

- (i) we have enhanced our policies on bank account management as well as receipt and payment of funds to require that all payments must be made through our corporate accounts and no Personal Accounts may be opened or used. Such policies remained effective as of the Latest Practicable Date, and all relevant finance and business personnel of our Group have been notified;
- (ii) the financial director of our Group, under the supervision of our chief financial officer, Mr. Wang Yongsheng, shall closely monitor all members of our Group to ensure that no Personal Account is opened or used by any member of our Group by (i) checking all accounting records to detect whether any Personal Account is involved in the receipt or payment of funds, and (ii) reviewing all bank statements of the corporate accounts of our Group to detect any abnormal or unauthorized transfer of funds. In case of any indication of use of Personal Accounts for the receipt or payment of funds by any member of our Group, Mr. Wang Yongsheng must be alerted immediately; and

- (iii) to meet the payment needs of our students and their parents during the non-office hours of banks, we have started to register accounts for our schools and tutorial centers on a PBOC-licensed payment platform operated by an Independent Third Party to receive payments from students and parents since March 2017.

Protiviti performed follow-up reviews in July 2017 and advised us that all remedial measures have been properly implemented, and they did not discover any further use of Personal Accounts for corporate purposes. Protiviti is of the view that the abovementioned enhanced internal control measures, if implemented on a continuous basis, are effective and adequate in preventing the occurrence of use of Personal Account in the future.

Based on the review of Protiviti, our Directors are of the view that such internal control measures will effectively prevent the recurrence of the use of Personal Accounts in the future. Meanwhile, each of our Controlling Shareholders has agreed to indemnify our Group pursuant to the Deed of Indemnity, on a joint and several basis, against any costs, expenses, claims, liabilities, penalties, losses or damages incurred or suffered by our Group arising from the Arrangements disclosed above.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

We have engaged an independent internal control consultant, which is affiliated with one of the “Big Four” accounting firms (the “Internal Control Consultant”), to conduct an evaluation of our internal control system in connection with the Listing. As part of the engagement, we have consulted with our Internal Control Consultant to identify the factors relevant to enhancing our internal control system and the steps to be taken. The Internal Control Consultant conducted its work from June 2016 to March 2017 and provided a number of findings and recommendations regarding corporate governance, accounting management, financial procedures and operations in its report in March 2017. We have subsequently taken remedial actions in response to such findings and recommendations. The Internal Control Consultant performed follow-up procedures on our Company’s internal control systems with regard to those actions taken by our Company and reported further commentary in September 2017. In its follow-up reviews, the Internal Control Consultant noted that we had followed all of its recommendations and taken corrective actions to address its internal control deficiencies and weaknesses.

We have designated responsible personnel in our Company to monitor the on-going compliance by our Company and our schools and tutorial centers with the relevant PRC laws and regulations that govern our business operations and oversee the implementation of any necessary measures. In addition, we plan to provide our Directors, senior management (including the principals and management of our schools and tutorial centers) and relevant employees with continuing training programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance.

In addition, we have adopted a set of internal rules and policies governing the conduct of our employees, including teachers and personnel performing other functions. We have set up a monitoring system to implement anti-bribery and anti-corruption measures so as to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. For example, our management is responsible for conducting a fraud and bribery risk assessment on an annual basis and our audit committee reviews and approves our annual risk assessment results and policies. We have also identified certain forbidden conduct in our internal anti-bribery and anti-corruption policies, including, among others, (i) acceptance or payment of bribes or rebates, including obtaining economic or other benefits through gifts and donations, offers of sponsorship or travel arrangements, or provision of membership cards, gift cards or other valuable securities; (ii) illegal use, embezzlement or

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misappropriation of our assets; and (iii) forgery or alteration of our accounting records. We offer mandatory training courses to our existing and new employees to enhance their knowledge and awareness of the relevant rules and regulations, as well as their own personal and professional conduct. Moreover, we have instituted remedies and relevant economic and administrative punishment for those employees who are involved in corruption and bribery activities. During the Track Record Period, we were not aware of any corruption involving, or any other material misconduct committed by our employees.

During the course of our operations, we may come into possession certain personal information regarding our employees and students. To safeguard the confidentiality of any personal data collected, we have adopted a number of internal control measures, including, among others, (i) limiting access to personal data to designated personnel only; (ii) requiring employees who have access to personal data to change the passwords of their accounts every three months; (iii) where the relevant employees are leaving their posts, denying them access to the personal data before their departure is finalized and requiring them to continue to keep confidential the relevant personal data; (iv) forbidding the downloading, distributing and discussing in public of the personal data; and (v) requiring employees to seek approval from their supervising managers and the administrative department before copying, extracting or distributing any confidential information.

Risk Management

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

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

- our Board of Directors is responsible and has the general power to manage the operations of our schools and tutorial centers, and is in charge of managing the overall risks of our Group. It is responsible for considering, reviewing and approving any significant business decision involving material risk exposures, such as our decision to expand our school network into new geographic areas, to raise our tuition, and to enter into cooperative business relationships with third parties to launch new education programs; and
- we maintain insurance coverage, which we believe is in line with customary practice in the PRC education industry, including school liability insurance.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option or any option(s) that may be granted under the Share Option Scheme is not exercised), our Controlling Shareholders, Mr. Li, Ms. Luo, Sainange Holdings and Sainray Limited, being a group of Controlling Shareholders, will together control the exercise of voting rights of 70% of our Shares eligible to vote in the general meeting of our Company. According to an acting in concert confirmation signed by Mr. Li and Ms. Luo dated December 19, 2016 (as supplemented on September 1, 2017), Mr. Li and Ms. Luo, the mother-in-law of Mr. Li, have been acting in concert since April 2005. Mr. Li and Ms. Luo have and will continue to jointly control and manage our Group's future management and operation, including but not limited to matters regarding business development and marketing strategies, management policies, operation and financial policies, increase or decrease of registered capital, changes related to shareholding and articles of association, investments, joint ventures and external guarantees.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that we are capable of carrying on our business independently from our Controlling Shareholders and its/his/her respective associates after completion of the Global Offering:

Clear Delineation between the Business of our Group and the Business of our Controlling Shareholders

Other than the interests in our Group, Mr. Li and Ms. Luo also holds direct or indirect interests in other companies engaged in other businesses in the PRC, including pawn and micro-financing, real estate development and management, asset investment and equity investment, and property management businesses which, in our Directors' view, are clearly delineated from and are not directly or indirectly in competition with those carried on by our Group. Lionful Education, a company owned by Mr. Li and Ms. Luo, was a holding company of the Group before the Corporate Reorganization. Lionful Education also operates pawn and micro-financing businesses and it is expected that Lionful Education is unable to dispose of its pawn and micro-financing businesses before Listing as (i) any transfer of equity interest in companies engaged in pawn and micro-financing businesses shall be approved by competent local commerce commission and government finance office, respectively, and (ii) Lionful Education has not identified any suitable buyers that satisfies the requirements as required by application PRC laws and regulations, such as sufficient net assets. Therefore, Zerui Education was established to replace Lionful Education. Please see "History and Corporate Structure – Corporate Reorganization" in this prospectus for further details.

Starting from in May 2002, Lionful Education and Shijiazhuang Tiedao University started joint schooling in Sifang College, an educational institution providing undergraduate education and offer undergraduate degrees in the PRC. Pursuant to the joint schooling arrangement agreed between Lionful Education and Shijiazhuang Tiedao University, Lionful Education is responsible for the operation and management in the west campus of Sifang College ("Sifang College West Campus"), which is located at the same premises where Shijiazhuang Institute of Technology operates. Accordingly, Lionful Education shall be entitled to receive 65% of tuition revenue generated from Sifang College West Campus and Shijiazhuang Tiedao University shall be entitled to receive the remaining 35%. With the gradual development of Shijiazhuang Institute of Technology, it has developed an advanced management system with sufficient administrative and human resources in relation to school management and operation. Subsequently, on June 21, 2010, Shijiazhuang Institute of Technology entered into a 10-year entrustment agreement with Lionful Education, pursuant to which Lionful Education engaged Shijiazhuang Institute of Technology to implement the key school operation and student administration of Sifang College West Campus, of which the yearly entrusted management fee shall be 65% of the tuition generated by Sifang College West Campus. Please see "Business – Our Schools – Shijiazhuang Institute of Technology – Ancillary Education Services – College Operation Services to the West Campus of Sifang College" and "Connected Transactions – Non-exempt Continuing Connected Transactions – Entrustment Agreement" in this prospectus for details.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

In light of the following reasons, the Directors are of the view that there is no material competition between the businesses of our Group and Sifang College and any potential competition can be minimized and well managed:

- (i) our Group is principally engaged in providing junior college and secondary vocational education, preschool education and non-credential educations in the PRC, while Sifang College is engaged in providing undergraduate education and Sifang College offers bachelor's degrees in the PRC. Shijiazhuang Institute of Technology offers junior college diplomas, while Sifang College offers bachelor's degrees. In the PRC, only students obtaining the required scores in the National Higher Education Entrance Exam can apply for universities or colleges which provide bachelor's degree while students whose scores are below such required score can only apply for junior colleges. Therefore, there is no direct competition between Sifang College and Shijiazhuang Institute of Technology since the student candidates are different; and
- (ii) as Lionful Education is not and does not have interests in other companies or entities that are capable of carrying out the operation services for Sifang College West Campus, Lionful Educations has reliance on Shijiazhuang Institute of Technology for its school facilities and campus management and operation services to Sifang College West Campus, which has been sharing certain school facilities and student administration systems of Shijiazhuang Institute of Technology.

Management Independence

Our Board comprises five executive Directors and three independent non-executive Directors. Mr. Li, a Controlling Shareholder, is one of our executive Directors. Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company. In addition, Ms. Yang Li served as a director of two controlled companies of our Controlling Shareholders. The other three executive Directors and the three independent non-executive Directors are independent of our Controlling Shareholders and hold no position with our Controlling Shareholders or their controlled companies.

Despite the fact that our two executive Directors have overlapping directorships and/or management roles at the non-Group companies directly or indirectly owned by Mr. Li and Ms. Luo, the Board and the senior management team of our Company will function independently from our Controlling Shareholders on the basis that (i) the majority of our executive Directors and all the senior management have no overlapping positions with the Controlling Shareholders and their controlled companies; and (ii) Mr. Li and Ms. Yang Li are primarily responsible for providing guidance on our Group's strategies and are not involved in the day-to-day management of our Group.

Each of our Directors is aware of his/her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders following the completion of the Global Offering. Each Director confirms that he or she does not have any competing business with Our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational Independence

We have also established our own organizational structure comprising various departments with independent functions and a set of internal control procedures to facilitate the effective operation of our business. We have established an independent management team to handle our daily operation and we do not rely on our Controlling Shareholders for our business development, staffing or marketing.

Shijiazhuang Institute of Technology, as lessee, entered into the lease agreement with Lionful Education, as lessor, for the lease of certain properties used by Shijiazhuang Institute of Technology. The Directors are of the view that we do not rely on Lionful Education for these properties that we lease from Lionful Education for our operations based on the reasons that (i) we own the key premises related to education operation of Shijiazhuang Institute of Technology, i.e. the teaching buildings; (ii) pursuant to the applicable PRC laws and regulations, the educational facilities and public welfare facilities within schools shall not be mortgaged; (iii) the lease agreement was entered into with a term of 10 years and Shijiazhuang Institute of Technology has an option to renew the lease agreement by written notice three months prior to expiration at normal commercial terms or better to the lessee and in compliance with applicable laws and regulations as well as the Listing Rules; (iv) the lessor shall not terminate the lease agreement without written notice of 12 months and the consent with the lessee; (v) the lessee was granted a pre-emptive right to rent the property under the same terms, which should be normal commercial terms or better to the lessee, where a third party also intends to rent the relevant properties; (vi) a lessee was granted a right of first refusal in the circumstances where the lessor was to sell the properties under the lease agreement to any third party and (vii) if the lessee decides not to exercise its right of first refusal as mentioned in (vi), the lessor shall ensure that the maintenance of the lease of relevant properties to the lessee will be one of the condition precedents to any transfer of any relevant properties to any third party. We acquired the building ownership rights of the teaching buildings and relevant land use rights from Lionful Education on November 15, 2016. By entering into the above mentioned lease agreement, we are able to avoid a significant amount of cost which would have been incurred for acquisition of the relevant properties, while entitled to the protection of our right to occupy and use them under the said long term lease agreement.

Blue Crystal Kindergarten and Qinghui Kindergarten, as lessees, entered into respective lease agreements with Hebei Ansince Property Management Co., Ltd. Shijiazhuang Branch* (河北安信聯行物業股份有限公司) (“Hebei Ansince Shijiazhuang Branch”), as lessor, for the lease of buildings used by Blue Crystal Kindergarten and Qinghui Kindergarten for their operation. Our Directors are of the view that we do not rely on Hebei Ansince Shijiazhuang Branch for these properties that we lease from Hebei Ansince Shijiazhuang Branch for our operations based on the reasons that (i) the terms of the lease agreements have been set for a period of three years and are renewable, and (ii) it is easy to relocate Blue Crystal Kindergarten and Qinghui Kindergarten without material additional cost even if Hebei Ansince Shijiazhuang Branch decided to terminate or refused to renew the lease agreements with us in the future.

Based on the above, we believe that the above continuing connected transactions will not have any material impact on our Group’s ability to operate independently and we are capable of carrying on our business independently of our Controlling Shareholders and their respective associates. Our Directors confirmed that our Group will be able to operate independently from our Controlling Shareholders and their associates upon the Listing.

Financial Independence

Our Group has its own financial management, internal control and accounting systems, accounting and finance department and the ability to make financial decisions and operate independently from our Controlling Shareholders from a financial perspective.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

During the Track Record Period, Mr. Li, one of our Controlling Shareholders, companies controlled by Mr. Li or jointly by Mr. Li and Ms. Luo, provided certain guarantees or security for loans of our PRC Operating Entities and there has incurred certain non-trade related amounts due to/from companies controlled by our Controlling Shareholders. Please see notes 21 and 30 to the Accountants' Report in Appendix I to this prospectus for further details. As of the Latest Practicable Date, all non-trade related amounts due to/from companies controlled by our Controlling Shareholders have been settled and all guarantees or security provided by our Controlling Shareholder, Mr. Li and companies controlled by him or him and Ms. Luo jointly have been released. Our Directors confirm that our Group does not intend to obtain any further borrowing, guarantees, pledges and mortgages from any of our Controlling Shareholders or entities controlled by our Controlling Shareholders. Therefore, our Directors are of the view that we have no financial dependence on our Controlling Shareholders.

NON-COMPETITION UNDERTAKING OF THE CONTROLLING SHAREHOLDERS

Under the Structured Contracts, Mr. Li and Ms. Luo have provided certain non-competition undertakings in favor of our Company. Please see “Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (1) Business Cooperation Agreement” in this prospectus for details of the non-competition undertakings provided by Mr. Li and Ms. Luo under the Structured Contracts.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to avoid any conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our Directors will comply with our Articles of Association, which requires the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his respective associates is materially interested;
- (b) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the non-competition undertakings under the Structured Contracts;
- (c) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the non-compete undertakings under the Structured Contracts;
- (d) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the non-competition undertakings of our Controlling Shareholders under the non-competition undertakings under the Structured Contracts in the annual reports of our Company; and
- (e) our Controlling Shareholders will make an annual declaration on compliance with their undertakings under the non-competition undertakings under the Structured Contracts in the annual report of our Company.

CONNECTED TRANSACTIONS

We have entered into a number of continuing agreements and arrangements with our connected persons in our ordinary and usual course of business. Upon Listing, the transactions disclosed in this section will constitute continuing connected transactions under the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Shijiazhuang Institute of Technology Property Lease Agreement

During the Track Record Period, Shijiazhuang Institute of Technology leased certain buildings for use in the operation of schooling from Lionful Education for nil consideration as Lionful Education was the school sponsor of Shijiazhuang Institute of Technology at the material time. On November 15, 2016, Lionful Education has transferred the land use rights and relevant building ownership rights on the teaching buildings to Shijiazhuang Institute of Technology. Based on a report issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer (“JLL”), for each of the years ended December 31, 2014, 2015 and 2016, the estimated annual market rental (excluding property management fee and utilities expenses) of the teaching buildings which were leased by Lionful Education to us before our acquisition of such teaching buildings in November 2016 was RMB2 million.

The lease of remaining properties (i.e. other than the teaching buildings) will continue upon Listing with a view to maintaining the integrity of the properties used by Shijiazhuang Institute of Technology for provision of education services to students. On May 4, 2018, Shijiazhuang Institute of Technology, as lessee, entered into a property lease agreement with Lionful Education, as lessor, (“Shijiazhuang Institute of Technology Property Lease Agreement”), pursuant to which Shijiazhuang Institute of Technology leased from Lionful Education nine dormitory buildings, one auto training center, one canteen, one infirmary and a library located at Hengshan Village, Luquan Development Area, Shijiazhuang, Hebei Province, the PRC with an aggregate construction area of approximately 71,460 sq.m. at an annual rental of RMB5.5 million. The term of lease is 10 years with an option granted to Shijiazhuang Institute of Technology to renew the agreement by giving written notice to the lessor three months prior to the expiration of the lease under normal commercial terms or better to Shijiazhuang Institute of Technology and in compliance with applicable laws and regulations as well as Listing Rules.

Pursuant to the Shijiazhuang Institute of Technology Property Lease Agreement, (i) the lessor shall not terminate the lease agreement without written notice of 12 months and the consent with the lessee; (ii) the lessee was granted a pre-emptive right to rent the property under the same terms, which should be normal commercial terms or better to the lessee, where a third party also intends to rent the relevant properties; (iii) the lessee was granted a right of first refusal in the circumstances where the lessor was to sell the properties under the lease agreement to any third party; and (iv) if the lessee decides not to exercise its right of first refusal as mentioned in (iii), the lessor shall ensure that the maintenance of the lease of relevant properties to the lessee will be one of the condition precedents to any transfer of any relevant properties to any third party.

Listing Rules Implications

Lionful Education is controlled by Mr. Li and Ms. Luo as to 88.96% and 11.04%, respectively. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li, a Director and one of the Controlling Shareholders, and Ms. Luo, one of the Controlling Shareholders, are connected persons of our Company. Lionful Education is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held directly by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li and Ms. Luo and a connected person of our Company.

CONNECTED TRANSACTIONS

Based on the current annual rental payable by us as aggregated with Saintach Kindergarten Property Lease Agreements as disclosed below, we expect that each of the applicable percentage ratios (other than the profit ratio) for the Shijiazhuang Institute of Technology Property Lease Agreement calculated in accordance with Rule 14A.77 of the Listing Rules will be more than 0.1% but less than 5% and thus the transactions contemplated under the Shijiazhuang Institute of Technology Property Lease Agreement as aggregated constitute continuing connected transactions of our Company which are subject to reporting, annual review and announcement but exempt from independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

In addition, as required by Rule 14A.52 of the Listing Rules, the period for continuing connected transactions must not exceed three years, except in cases where the nature of the transactions requires the contract to be of a term longer than three years.

Historical Amount and Proposed Annual Caps

For the two years ended December 31, 2015 and 2016, we have not incurred any amount relating to such lease. For the year ended December 31, 2017, we paid RMB5.5 million for such lease. The annual caps for the Shijiazhuang Institute of Technology Property Lease Agreement for each of the years ending December 31, 2020 are expected to be RMB5.5 million, which were estimated based on the rental payable as determined with reference to a report issued by JLL. Upon the expiry of the three-year waiver granted by the Stock Exchange as mentioned below, Shijiazhuang Institute of Technology will re-consider the market conditions and enter into a supplemental agreement with Lionful Education to adjust the rental under the Shijiazhuang Institute of Technology Property Lease Agreement if necessary.

JLL, our independent property valuer, has confirmed that (i) the terms and conditions of the Shijiazhuang Institute of Technology Property Lease Agreement are normal commercial terms and conditions, fair and reasonable and on market rate; and (ii) the current annual amount payable by Shijiazhuang Institute of Technology under the Shijiazhuang Institute of Technology Property Lease Agreement is no less favourable than those offered by Independent Third Parties.

Application for Waiver

As the said non-exempt continuing connected transactions have been disclosed in this prospectus and will continue after the Listing on a recurring basis according to the nature of the transactions, our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be unnecessary and unduly burdensome and would add unnecessary administrative costs to the Company.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver for the three years ending December 31, 2020 to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transactions on the basis that the annual transaction values shall not exceed the relevant proposed annual caps for the three years ending December 31, 2018, 2019 and 2020.

In addition, we will comply with the applicable requirements as set out in Chapter 14A of the Listing Rules, including Rules 14A.34, 14A.51, 14A.53, 14A.59 and 14A.71(6) of the Listing Rules in relation to such non-exempt continuing connected transactions, and will re-comply with relevant Listing Rules if the annual caps set out above are exceeded (whether or not as a result of the adjustment in rental as mentioned above), or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement. In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the non-exempt continuing connected transactions, our Company will take immediate steps to ensure the compliance with such new requirements within a reasonable time. Such transaction will continue to be subject to the annual reporting requirement under the Listing Rules.

CONNECTED TRANSACTIONS

Views of Directors and the Sole Sponsor

Our Directors (including the independent non-executive Directors) consider and the Sole Sponsor concurs that (i) the transactions contemplated under the Shijiazhuang Institute of Technology Property Lease Agreement have been entered into in the ordinary and usual course of business, on normal terms or better that are fair and reasonable and in the interest of the Shareholders as a whole; and (ii) the proposed annual caps for the transactions contemplated under the Shijiazhuang Institute of Technology Property Lease Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Our Directors are also of the view that it is in the interests of our Group and normal business practice for the Shijiazhuang Institute of Technology Property Lease Agreement to have a period longer than three years as it will maintain the integrity of the properties used by Shijiazhuang Institute of Technology for provision of education services to students and the stability of the business of the Group. As such, our Directors are of the view that the current term of the Shijiazhuang Institute of Technology Property Lease Agreement is appropriate for the Shijiazhuang Institute of Technology Property Lease Agreement.

The Sole Sponsor has (i) reviewed the terms of the Shijiazhuang Institute of Technology Property Lease Agreement, our business model and discussed with our Company and relevant professional parties; and (ii) considered that the long duration of the Shijiazhuang Institute of Technology Property Lease Agreement will maintain the integrity of the properties used by Shijiazhuang Institute of Technology for provision of education services to students and the stability of the business of our Group, which is in the interests of our Company and the Shareholders as a whole. Therefore, the Sole Sponsor is of the view that the term of the Shijiazhuang Institute of Technology Property Lease Agreement is not excessive and it is normal business practice for the Shijiazhuang Institute of Technology Property Lease Agreement or similar arrangement of such nature to be of long duration in order to better protect the interests of our Company and the Shareholders as a whole.

2. Saintach Kindergartens Property Lease Agreements

During the Track Record Period, Blue Crystal Kindergarten and Qinghui Kindergarten leased certain buildings for use in the operation of their respective kindergartens from Hebei Ansince Property Management Co., Ltd. Shijiazhuang Branch* (河北安信聯行物業股份有限公司石家莊分公司) (“Hebei Ansince Shijiazhuang Branch”). Blue Crystal Kindergarten and Qinghui Kindergarten have been using the leased buildings for a long time. In order to maintain the existing business and ensure our stable development and operation, such leases shall continue upon Listing and set out below are the principal terms and details of the two property lease agreements (collectively, the “Saintach Kindergartens Property Lease Agreements”) entered into between each of Blue Crystal Kindergarten and Qinghui Kindergarten and Hebei Ansince Shijiazhuang Branch on May 4, 2018.

Lessee	Lessor	Duration of the Lease	Description and use of the property leased	Historical amounts (RMB)			Proposed annual caps (RMB)
				for the year ended December 31,			for each of the three years ending December 31,
				2015	2016	2017	2020
1. Blue Crystal Kindergarten	Hebei Ansince Shijiazhuang Branch	For a term ending December 31, 2020, with an option to renew for an additional term upon giving written notice to the lessor three months prior to the expiration	One property used as teaching area with total gross floor area of 1,267 sq.m. located in No. 6 Xingfang Street, Shijiazhuang, Hebei Province, the PRC	164,000	164,000	165,000	250,000

CONNECTED TRANSACTIONS

Lessee	Lessor	Duration of the Lease	Description and use of the property leased	Historical amounts (RMB)			Proposed annual caps (RMB)
				for the year ended December 31,			for each of the three years ending December 31,
				2015	2016	2017	2020
2. Qinghui Kindergarten	Hebei Ansince Shijiazhuang Branch	For a term ending December 31, 2020, with an option to renew for an additional term upon giving written notice to the lessor three months prior to the expiration	One property used as teaching area with an aggregate construction area of 1,363 sq.m. located in No. 270 Guanghua Road, Chang'an District, Shijiazhuang, Hebei Province, the PRC	173,000	173,000	175,000	250,000
Total amounts				337,000	337,000	340,000	500,000
In aggregation with amount paid under the Shijiazhuang Institute of Technology Property Lease Agreement				337,000	337,000	5,840,000	6,000,000

Listing Rules Implications

Hebei Ansince Shijiazhuang Branch is a branch of Hebei Ansince Property Management Co., Ltd.* (河北安信聯行物業股份有限公司), which was held as to 10% by Ms. Luo, and 90% by Beijing Yihe Dazhong Commercial Investment Co., Ltd.* (北京宜和大眾商業投資有限公司) (“Beijing Yihe”), as of the Latest Practicable Date. Beijing Yihe was held as to 26.09% by Mr. Li and 73.91% by Lionful Investment Holding, as of the Latest Practicable Date. Accordingly, Hebei Ansince Shijiazhuang Branch is controlled by Mr. Li and Ms. Luo indirectly. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li, a Director and one of the Controlling Shareholders and Ms. Luo, one of the Controlling Shareholders, are connected persons of our Company. Hebei Ansince Shijiazhuang Branch is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held indirectly by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li and Ms. Luo and a connected person of our Company.

As the transactions contemplated under the Saintach Kindergartens Property Lease Agreements and the Shijiazhuang Institute of Technology Property Lease Agreement are of the same nature, we consider it appropriate to aggregate the annual rent under the Saintach Kindergartens Property Lease Agreements and the Shijiazhuang Institute of Technology Property Lease Agreement to calculate the applicable percentage ratios pursuant to Rule 14A.81 of the Listing Rules. Based on the current aggregated annual rent payable by us, we expect that each of the applicable percentage ratios (other than the profit ratio) calculated in accordance with Rule 14A.77 of the Listing Rules will be more than 0.1% but less than 5% and thus the transactions contemplated under the Saintach Kindergartens Property Lease Agreements and the Shijiazhuang Institute of Technology Property Lease Agreement as aggregated constitute continuing connected transactions of our Company which are subject to reporting, annual review and announcement but exempt from independent shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

Historical Amount and Proposed Annual Caps

For details of the historical amounts and proposed annual caps, please see the table above. The proposed annual caps were determined with reference to the historical transaction amounts for the relevant lease and the a report issued by JLL.

CONNECTED TRANSACTIONS

JLL, our independent property valuer, has confirmed that (i) the terms and conditions of the Saintach Kindergartens Property Lease Agreements are normal commercial terms and conditions, fair and reasonable and on market rate; and (ii) the current annual amount payable by our PRC Operating Entities under the Saintach Kindergartens Property Lease Agreements is no less favourable than those offered by the Independent Third Parties.

Application for Waiver

As the said non-exempt continuing connected transactions have been disclosed in this prospectus and will continue after the Listing on a recurring basis according to the nature of the transactions, our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be impractical and unduly burdensome and would add unnecessary administration costs to the Company.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transactions on the basis that the annual transaction values shall not exceed the relevant proposed annual caps as set out above.

In addition, we will comply with the applicable requirements as set out in Chapter 14A of the Listing Rules, including Rules 14A.34, 14A.51 to 14A.53, 14A.59 and 14A.71(6) of the Listing Rules in relation to such non-exempt continuing connected transactions, and will re-comply with relevant Listing Rules if the annual caps as set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement. In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the non-exempt continuing connected transaction, our Company will take immediate steps to ensure the compliance with such new requirements within a reasonable time. Such transaction will continue to be subject to the annual reporting requirements under the Listing Rules.

Views of Directors and the Sole Sponsor

Our Directors (including the independent non-executive Directors) consider and the Sole Sponsor concurs that (i) the transactions contemplated under the Saintach Kindergartens Property Lease Agreements have been and will be entered into in the ordinary and usual course of business, on normal terms or better that are fair and reasonable and in the interest of the Shareholders as a whole; and (ii) the proposed annual caps for the transactions contemplated under the Saintach Kindergartens Property Lease Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3. Entrustment Agreement

Starting from in May 2002, Lionful Education and Shijiazhuang Tiedao University started joint schooling in Sifang College. Please see “Business – Shijiazhuang Institute of Technology – Ancillary Education Services – College Operation Services to the West Campus of Sifang College” and “Relationship with Controlling Shareholders – Independence from our Controlling Shareholders – Clear Delineation between the Business of our Group and the Business of our Controlling Shareholders” in this prospectus for details of the joint schooling arrangement. On June 21, 2010, Shijiazhuang Institute of Technology entered into an entrustment agreement with Lionful Education (the “Entrustment Agreement”), pursuant to which Lionful Education engaged Shijiazhuang Institute of Technology, which has sufficient campus management capability, to implement the key school operation and student administration of Sifang College West Campus and the yearly entrusted management fee is 65% of the tuition generated by Sifang College West Campus. Such rate represents the amount of revenue generated from Sifang College West Campus’ tuition to which Lionful Education is entitled as agreed between

CONNECTED TRANSACTIONS

Lionful Education and Shijiazhuang Tiedao University pursuant to the joint schooling arrangement, which was determined through arm's length negotiation between Lionful Education and Shijiazhuang Tiedao University, taking into account of the reputation of Shijiazhuang Tiedao University and the capacity and quality of school facilities provided by Lionful Education to Sifang College West Campus for its operations. The term of the Entrustment Agreement is ten years commencing on July 1, 2010 and ending on June 30, 2020 and may be renewable by negotiation before expiration of the term.

Listing Rules Implication

Lionful Education is controlled by Mr. Li and Ms. Luo as to 88.96% and 11.04%, respectively. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li, a Director and one of the Controlling Shareholders and Ms. Luo, one of the Controlling Shareholders, are connected persons of our Company. Lionful Education is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held directly by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li and Ms. Luo and a connected person of our Company.

Based on the current entrusted management fee chargeable by us, we expect that each of the applicable percentage ratios (other than profit ratio) for the Entrustment Agreement will be more than 5% and the expected aggregate annual fees are more than HK\$10 million, and thus the connected transaction contemplated under the Entrustment Agreement constitutes a continuing connected transaction of our Company which is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as required by Rule 14A.52 of the Listing Rules, the period for continuing connected transactions must not exceed three years, except in cases where the nature of the transactions requires the contract to be of a duration longer than three years.

Historical Amount and Proposed Annual Cap

The historical amounts payable and settled by Lionful Education under the Entrustment Agreement for the years ended December 31, 2015, 2016 and 2017 were approximately RMB17.89 million, RMB17.97 million and RMB18.06 million, respectively. The proposed annual caps for the Entrustment Agreement for each of the years ending December 31, 2018 and 2019 and six months ending June 30, 2020 are expected to be approximately RMB21.00 million, RMB21.00 million and RMB12.00 million, respectively. The proposed annual caps were determined with reference to (i) the historical amounts of the revenue generated from tuition from Sifang College West Campus, and (ii) the expected increase in tuition of Sifang College West Campus.

Application for Waiver

As the said non-exempt continuing connected transaction has been disclosed in this prospectus and will continue after the Listing on a recurring basis according to the nature of the transaction, our Directors consider that strict compliance with the announcement, circular and independent shareholders' approval requirements under the Listing Rules would be unnecessary and unduly burdensome.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transaction on the basis that the annual transaction values shall not exceed the relevant proposed annual caps set out above.

CONNECTED TRANSACTIONS

In addition, we will comply with the applicable requirements set out in Chapter 14A of the Listing Rules, including Rules 14A.34, 14A.51 to 14A.53, 14A.59 and 14A.71(6) of the Listing Rules in relation to such non-exempt continuing connected transactions, and will re-comply with relevant Listing Rules if the annual cap set out above is exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement. In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the non-exempt continuing connected transaction, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

Views of Directors and the Sole Sponsor

The entering into of the Entrustment Agreement allows us to leverage and monetize the experience and capabilities we have built up in operating our own schools. In addition, as Sifang College West Campus shares certain of our school facilities in Shijiazhuang Institute of Technology, we are able to share administration costs with Sifang College West Campus and achieve the economies of scale.

Our Directors (including the independent non-executive Directors) consider and the Sole Sponsor concurs that (i) the transactions contemplated under the Entrustment Agreement have been and will be entered into in the ordinary and usual course of business, on normal terms or better that are fair and reasonable and in the interest of the Shareholders as a whole; and (ii) the proposed annual caps for the transactions contemplated under the Entrustment Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

Our Directors are also of the view that it is in the interests of our Group and normal business practice for the Entrustment Agreement to have a period longer than three years as it will enable us to establish a stable and long term relationship with Lionful Education in respect of provision of college operation services. As such, our Directors are of the view that the current term is appropriate for the Entrustment Agreement.

The Sole Sponsor has (i) reviewed the terms of the Entrustment Agreement, our business model and discussed with our Company and relevant professional parties; and (ii) considered that the long duration of the Entrustment Agreement will enable us to establish a stable and long term relationship with Lionful Education in respect of provision of college operation services, which is in the interests of our Company and our Shareholders as a whole. Therefore, the Sole Sponsor is of the view that the term of the Entrustment Agreement is not excessive and it is normal business practice for the Entrustment Agreement or similar arrangement of such nature to be of long duration in order to better protect the interests of our Company and our Shareholders as a whole.

4. Structured Contracts

As disclosed in “Structured Contracts – Background of the Structured Contracts” in this prospectus, the PRC laws, regulations and regulatory practice restrict the operation of preschool, higher, non-credential and secondary vocational education to Sino-foreign ownership, in addition to imposing the Qualification Requirement on the foreign owners. Further, government approval in respect of Sino-foreign ownership has been withheld. As a result, our Group, through our wholly-owned subsidiary, Sheng Dao Xiang Cheng, has entered into the Structured Contracts such that we can conduct our business operations indirectly in the PRC through our PRC Operating Entities while complying with applicable PRC laws, regulations and regulatory practice. The Structured Contracts are designed to provide our Group with effective control over the financial and operational policies of our PRC Operating Entities and, to the extent permitted by PRC laws and regulations, the right to acquire the equity interest in and/or the assets of our PRC Operating Entities after the Listing through Sheng Dao Xiang Cheng. Pursuant to the Structured Contracts, all material business activities of our PRC Operating Entities are instructed and

CONNECTED TRANSACTIONS

supervised by our Group, through Sheng Dao Xiang Cheng, and all economic benefits arising from such business of the our PRC Operating Entities are transferred to our Group. Based on the above, our Directors are of the view that the Structured Contracts are fundamental to our Group's legal structure and business operations.

On October 17, 2017, our wholly-owned subsidiary, Sheng Dao Xiang Cheng, entered into a series of agreements with Mr. Li, Ms. Luo and relevant entities controlled by them including the Business Cooperation Agreement, the Exclusive Service Agreement, the Exclusive Call Option Agreements, the Equity Pledge Agreements and the School Sponsors' and Directors' Rights Entrustment Agreement, which form part of the Structured Contracts. Please see "Structured Contracts" in this prospectus for details of these agreements.

Listing Rules Implications

Mr. Li, a Director and one of the Controlling Shareholders, and Ms. Luo, one of the Controlling Shareholders, are connected persons of our Company under Rule 14A.07(1) of the Listing Rules. Accordingly, the transactions contemplated under the Structured Contracts constitute continuing connected transactions of our Company under the Listing Rules upon Listing.

Our Directors (including the independent non-executive Directors) are of the view that the Structured Contracts and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations, that such transactions have been and shall be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Accordingly, notwithstanding that the transactions contemplated under the Structured Contracts and any new transactions, contracts and agreements or renewal of existing agreements to be entered into between any of our PRC Operating Entities and any member of our Group technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Structured Contracts, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement and independent shareholders' approval requirements.

Application for Waiver

In view of the Structured Contracts, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with (i) the announcement, circular and Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Structured Contracts pursuant to Rule 14A.105 of the Listing Rules, (ii) the requirement of setting an annual cap for the transactions under the Structured Contracts under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of the Structured Contracts to three years or less under Rule 14A.52 of the Listing Rules subject however to the following conditions:

- (a) *No change without independent non-executive Directors' approval*

No change to the Structured Contracts will be made without the approval of the independent non-executive Directors.

CONNECTED TRANSACTIONS

(b) No change without independent Shareholders' approval

Save as described in paragraph (d) below, no change to the agreements governing the Structured Contracts will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Structured Contracts in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Structured Contracts shall continue to enable our Group to receive the economic benefits derived from our PRC Operating Entities through (i) our Group's option, to the extent permitted under PRC laws and regulations to acquire, all or part of the school sponsors' interest held by Mr. Li, Zerui Education, Hebei Saintach and Shijiazhuang Saintach at the lowest possible amount of consideration permissible under the applicable PRC laws and regulations, (ii) the business structure under which the net profit generated by our PRC Operating Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Sheng Dao Xiang Cheng by our PRC Operating Entities under the Exclusive Service Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of our PRC Operating Entities as appointed by Mr. Li, Zerui Education, Hebei Saintach and Shijiazhuang Saintach in our PRC Operating Entities.

(d) Renewal and reproduction

On the basis that the Structured Contracts provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on one hand, and our PRC Operating Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the existing Structured Contracts. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and, or reproduction of the Structured Contracts, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar Structured Contracts shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

Our Group will disclose details relating to the Structured Contracts on an ongoing basis as follows:

- the Structured Contracts in place during each financial period will be disclosed in our Company's annual report in accordance with relevant provisions of the Listing Rules;

CONNECTED TRANSACTIONS

- our independent non-executive Directors will review the Structured Contracts annually and confirm in our Company's annual report for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structured Contracts, have been operated so that the profit generated by our PRC Operating Entities has been substantially retained by our Group, (ii) no dividends or other distributions have been made by our PRC Operating Entities to the holders of its school sponsor's interest which are not otherwise subsequently assigned or transferred to our Group, and (iii) the Structured Contracts and if any, any new contracts entered into, renewed or reproduced between our Group and our PRC Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to the Shareholders, so far as our Group is concerned and in the interests of our Shareholders as a whole;
- our Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Structured Contracts and will provide a letter to our Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Structured Contracts and that no dividends or other distributions have been made by our PRC Operating Entities to the holders of its school sponsor's interest which are not otherwise subsequently assigned or transferred to our Group;
- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each of our PRC Operating Entities will be treated as our Company's wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of our PRC Operating Entities and their respective associates will be treated as connected persons of our Company, and transactions between these connected persons and our Group, other than those under the Structured Contracts, will be subject to requirements under Chapter 14A of the Listing Rules; and
- each of our PRC Operating Entities will undertake that, for so long as our Shares are listed on the Stock Exchange, each of our PRC Operating Entities will provide our Group's management and our Company's auditors full access to its relevant records for the purpose of our Company's auditors' review of the continuing connected transactions.

New Transactions Amongst Our PRC Operating Entities and Our Company

Given that the financial results of our PRC Operating Entities will be consolidated into our financial results and the relationship between our PRC Operating Entities and our Company under the Structured Contracts, all agreements other than the Structured Contracts that may be entered into between each of our PRC Operating Entities and our Company in the future will also be exempted from the "continuing connected transactions" provisions of the Listing Rules.

Views of Directors and the Sole Sponsor

Our Directors (including the independent non-executive Directors) are of the view that the transactions contemplated under the Structured Contracts as described above, and for which waivers have been sought, have been entered into in the ordinary and usual course of business of our Group, are fundamental to our legal structure and business operation, are on normal commercial terms, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole. With respect to the term of the relevant agreements underlying the Structured Contracts which is of a duration longer than three years, it is a justifiable and normal business practice to ensure that (i) the financials and operation of our PRC Operating Entities can be effectively controlled by Sheng Dao Xiang Cheng, (ii) Sheng Dao Xiang Cheng can obtain the economic benefits derived from our PRC Operating Entities, and (iii) any possible leakages of assets and values of our PRC Operating Entities can be prevented, on an uninterrupted basis.

CONNECTED TRANSACTIONS

The Sole Sponsor has reviewed the relevant agreements underlying the Structured Contracts and information provided by our Group, has participated in the due diligence and discussions with our management and our PRC Legal Advisor, and has obtained necessary representations and confirmations from our Company and our Directors. Based on the above, the Sole Sponsor concurs with the views of the Directors stated in the previous paragraph.

INTERNAL CONTROL MEASURES

We have adopted the following internal control and corporate governance measures to closely monitor connected transactions and ensure future compliance with the Listing Rules:

- (1) at the beginning of each calendar year, our finance and accounting department will issue and circulate the annual caps for the connected transactions of the Company for that particular year and remind each member and department of our Group to follow the internal control procedures for the control of connected transactions;
- (2) the relevant operational departments of our Group will report regularly to our senior management with respect to the actual performance of the connected transactions;
- (3) the finance and accounting department of our Group will monitor the connected transactions to ensure such transactions to be performed in accordance with the relevant agreements and will not exceed the annual caps as described therein;
- (4) we shall engage our auditors to, and our independent non-executive Directors will, conduct annual review on the connected transactions to ensure that the transactions contemplated thereunder have been conducted pursuant to the requirements of the Listing Rules and have fulfilled the relevant disclosure requirements; and
- (5) we shall use our best endeavor to comply with the relevant reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules for the continuing connected transactions, and comply with the conditions prescribed under the waiver submitted to the Stock Exchange in connection with the continuing connected transactions in this regard.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that the non-exempt continuing connected transactions as set out above are entered into and will be entered into during our ordinary and usual course of business, on normal commercial terms, and the terms of the Shijiazhuang Institute of Technology Property Lease Agreement, the Saintach Kindergartens Property Lease Agreements, the Entrustment Agreement, and the Structured Contracts are fair and reasonable and in the interest of our Company and the Shareholders as a whole, and that the proposed annual caps for such non-exempt continuing connected transactions are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Our Board is responsible and has general powers for the management and conduct of our business. Our Board currently consists of eight Directors, including five executive Directors and three independent non-executive Directors. The following table sets forth information regarding members of our Board:

Name	Age	Position	Time of joining our Group	Date of appointment as Directors	Roles and Responsibilities	Relationship with other Directors and our senior management
Li Yunong (李雨濃, whose former name was Li Desong (李德頌))	53	Chairman of the Board and executive Director	November 2000	January 19, 2017	Overall formulation, guidance of business strategy and development of our Group	None
Liu Zhanjie (劉占杰)	45	Chief executive officer and executive Director	November 2004	September 20, 2016	Overall operation and management of our Group	None
Liu Hongwei (劉宏煒)	35	Executive vice president and executive Director	May 2010	January 19, 2017	Overall operation and daily management of tutorial schools of our Group	None
Ren Caiyin (任彩銀)	41	Executive vice president and executive Director	October 2004	January 19, 2017	Overall operation and daily management of the higher education section of our Group	None
Yang Li (楊莉)	46	Executive Director	January 2001	February 15, 2017	Research on marketing strategies of our Group	None
Guo Litian (郭立田)	66	Independent non-executive Director	January 2017	January 19, 2017	Providing independent opinion and judgment to our Board	None
Ma Guoqing (馬國慶)	49	Independent non-executive Director	January 2017	January 19, 2017	Providing independent opinion and judgment to our Board	None
Yao Zhijun (姚志軍)	47	Independent non-executive Director	January 2017	January 19, 2017	Providing independent opinion and judgment to our Board	None

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding the senior management members of our Company:

Name	Age	Position	Date of joining our Group	Appointment date	Roles and Responsibilities	Relationship with other Directors and the senior management
Liu Qingli (劉青莉)	46	Executive vice president	December 2015	December 30, 2015	Human resources, legal compliance and daily management of our Group	None
Wang Yongsheng (王永生)	48	Vice president and chief financial officer	April 2009	November 23, 2015	Financial management and corporate governance of our Group	None
Liu Cai (劉才)	70	President of Shijiazhuang Institute of Technology	July 2008	July 1, 2008	Teaching management of Shijiazhuang Institute of Technology	None
Wang Lijing (王利靜)	37	General manager of Hebei Saintach	July 2003	June 7, 2016	Overall operation and daily management of Hebei Saintach	None

BOARD OF DIRECTORS

Executive Directors

Mr. Li Yunong (李雨濃), aged 53, is one of our Controlling Shareholders and founders of our Group. Mr. Li was appointed as the chairman of the Board and an executive Director on January 19, 2017 and has served as a director of Shijiazhuang Institute of Technology since May 2003, mainly responsible for the overall formulation, guidance of business strategy and development of our Group. Mr. Li has more than 20 years of experience in the education industry.

Mr. Li served as a teacher in Hebei Institute of Physical Education* (河北體育學院) from July 1985 to October 1990 and he was engaged as a scriptwriter in Shijiazhuang Institute of Art* (石家莊藝術研究所, currently known as the Institute of Culture and Arts of Shijiazhuang City* (石家莊市文化藝術研究所)) from November 1990 to October 1994. Mr. Li has been serving as the art director in the Hebei Youth Television Culture and Art Center* (河北青年電視藝術中心) from November 1994. Since January 2004, Mr. Li has been acting as the chairman of the board of directors of Lionful Investment Holding.

Mr. Li graduated from Hebei University (河北大學) in Baoding, Hebei Province, the PRC, with a bachelor's degree in economics in July 1985 and Tsinghua University (清華大學) in Beijing, the PRC, with a master of business administration for senior management in January 2006.

Mr. Liu Zhanjie (劉占杰), aged 45, was appointed as a Director on September 20, 2016 and re-designated as an executive Director on January 19, 2017, and was appointed as the chief executive officer of the Company on August 30, 2017, mainly responsible for the overall operation and management of our Group. Mr. Liu has more than 13 years of experience in the education industry.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu served as a deputy head of labor and personnel department and director of staff's training center of Hebei Province No. 4 Construction Engineering Co., Ltd.* (河北省第四建築工程公司) from July 1994 to May 2003, and as the manager of integrated department of Lionful Investment Holding from June 2003 to October 2004. Mr. Liu joined our Group in November 2004 as the executive vice dean of Shijiazhuang Institute of Technology and ceased to be the executive vice dean in October 2007. From October 2007 to August 2017, Mr. Liu has successively served as the deputy general manager and the president of Lionful Education. Mr. Liu has been a director of Shijiazhuang Institute of Technology since November 2011, the chairman of the board of directors of Hebei Saintach since August 2015 and Shijiazhuang Saintach since July 2016.

Mr. Liu graduated from Hebei University (河北大學) in Baoding, Hebei Province, the PRC, with a bachelor's degree of arts majoring in Chinese literature (漢語言文學) in July 1994 and Hebei University of Technology (河北工業大學) in Tianjin, the PRC, with a master's degree in business administration in December 2004. He obtained the certificate of qualification of a senior human resources management professional awarded by the Vocational Skills Appraisal Guidance Center of Hebei Province* (河北省職業技能鑒定指導中心) in August 2003 and was accredited as a senior economist by The Title Reform Leading Group Office of Hebei Province* (河北省職稱改革領導小組辦公室) (the “**Hebei Title Reform Office**”) in December 2003. He also obtained a certificate of career instructor awarded by the Occupational Skill Testing Authority of the Ministry of Human Resources and Social Security of the PRC (中國勞動和社會保障部職業技能鑒定中心) in December 2006.

Ms. Liu Hongwei (劉宏偉), aged 35, was appointed as an executive vice president and an executive Director on January 19, 2017, mainly responsible for the overall operation and daily management of tutorial schools of our Group. Ms. Liu has more than seven years of experience in the education industry and more than 13 years of experience in the corporate management.

From June 2004 to May 2010, Ms. Liu held various positions in different branch offices of Hebei 1+2 Real Estate Brokerage Co., Ltd.* (河北壹加貳房地產經紀有限公司), including the manager of marketing department and the manager of operation management department and the general manager. Ms. Liu joined our Group in May 2010 and has successively served in Shijiazhuang Saintach as the manager of operation management department, the assistant to the general manager, the deputy general manager and the general manager since then. From August 2013 to August 2017, Ms. Liu served as the assistant to the president and the vice president of Lionful Education, successively.

Ms. Liu graduated from Hebei University (河北大學) in Baoding, Hebei Province, the PRC, majoring in law in July 2003 and with master's degree in business administration in January 2015.

Mr. Ren Caiyin (任彩銀), aged 41, was appointed as an executive vice president and an executive Director on January 19, 2017, mainly responsible for the overall operation and daily management of the higher education section of our Group. Mr. Ren has more than 13 years of experience in the education industry.

Mr. Ren joined our Group in October 2004 as a teacher of Shijiazhuang Institute of Technology and has served in several positions successively including the head of the teaching and research section, the dean of economics and management college, the assistant to the dean, the executive vice dean and the executive dean since then. Mr. Ren also has been a director and the executive vice president of Lionful Education from June 2016 to August 2017. He has served as a director of Hebei Saintach since September 2016.

Mr. Ren graduated from Northeast Forest University (東北林業大學) in Harbin, Heilongjiang Province, the PRC, with a bachelor's degree in forestry in July 2001 and a master's degree in ecology in June 2004. He obtained the qualification as a teacher in higher education granted by the Education Department of Hebei Province (河北省教育廳) in December 2007 and obtained the title of associate professor granted by Hebei Title Reform Office in December 2016.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Yang Li (楊莉), aged 46, was appointed as an executive Director on February 15, 2017, mainly responsible for the research on marketing strategies of our Group. Ms. Yang has more than 13 years of experience in the education industry and more than 13 years of experience in accounting and financing.

Ms. Yang served as the deputy director of the financial department of Shijiazhuang Jingang Internal-combustion Engine Parts Group Co., Ltd.* (石家莊金剛內燃機零部件集團有限公司) from July 1993 to January 2001. Ms. Yang joined our Group in January 2001 as an accountant in Lionful Education. She ceased to be an accountant in January 2004 and served as the financial manager from January 2004 to January 2005 and successively as the investment manager and the strategic planning manager in strategy development department from January 2005 to August 2017. Ms. Yang served as a director in Shijiazhuang Saintach from June 2013 to April 2015 and as a director in Hebei Saintach from July 2013 to December 2015. Ms. Yang served as a director in Lionful Education from July 2013 to October 2016.

Ms. Yang graduated from Shaanxi Institute of Mechanical Engineering* (陝西機械學院, currently known as Xi'an University of Technology* (西安理工大學)) in Xi'an, Shaanxi Province, the PRC, with a bachelor's degree of engineering in July 1993, and Renmin University of China (中國人民大學) in Beijing, the PRC, with a master of economics in June 2009. She obtained the registered qualification certificate of registered tax agent in September 2002 and the qualification certificate of senior accountant in November 2015, both granted by the Hebei Title Reform Office. She was granted the certified public accountant certificate by The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2002.

Independent Non-executive Directors

Mr. Guo Litian (郭立田) aged 66, was appointed as an independent non-executive Director on January 19, 2017 and is responsible for providing independent opinion and judgment to our Board.

Prior to joining our Group, Mr. Guo successively served in Hebei University of Economics and Business (河北經貿大學) as the dean of accounting college, the secretary of party committee and the dean of economics and management college, and the director of disciplinary construction and degree management office from June 1998 to May 2008. After May 2008, Mr. Guo had served as a tutor to graduate students in Hebei University of Economics and Business until he retired in March 2016.

Mr. Guo graduated from Hebei College of Finance and Trade* (河北財貿學院) (currently known as Hebei University of Economics and Business (河北經貿大學)) in Shijiazhuang, Hebei Province, the PRC, with a bachelor's degree in economics in August 1983. He obtained the title of professor (specialized in business administration) by the Hebei Title Reform Office in June 2009 and was awarded as the brilliant accounting worker in Hebei Province (河北省優秀會計工作者) by the Finance Department of Hebei Province* (河北省財政廳) in August 2005.

Mr. Ma Guoqing (馬國慶) aged 49, was appointed as an independent non-executive Director on January 19, 2017 and is responsible for providing independent opinion and judgment to our Board.

Prior to joining our Group, Mr. Ma successively held several positions including the deputy general manager and the general manager of the investment department, and the investment director of Hebei Province Construction & Investment Group Co., Ltd.* (河北省建設投資集團有限責任公司) from July 1991 to March 2014. From June 2013 to August 2014, he served as the vice chairman of the board and a non-executive director of China Suntien Green Energy Corporation Limited* (新天綠色能源股份有限公司), a company listed on the Stock Exchange (stock code: 00956), which was engaged in exploitation and utilization of clean energy and new energy. From March 2014 to July 2016, Mr. Ma served as a director of the board and the vice president of Gaokang Capital Investment Management Co., Ltd.* (高康資本投資管理有限公司). Since September 2015, Mr. Ma has been serving as a director of Beijing Zhongyan Dadi Technology Co., Ltd.* (北京中巖大地科技股份有限公司), a company listed in National Equities Exchange and Quotations (全國中小企業股份轉讓系統) (stock code: 835524), which provides technology research

DIRECTORS AND SENIOR MANAGEMENT

and development and services in geotechnical engineering integration, underground space exploitation and environmental modification. Since September 2016, he has been serving as the assistant to the general manager of Yan Zhao Property Insurance Co., Ltd.* (燕趙財產保險股份有限公司).

Mr. Ma graduated from Hebei University (河北大學) in Baoding, the PRC, with a bachelor's degree in economics in July 1991; Hebei University of Technology (河北工業大學) in Tianjin, the PRC, with a master's degree in business administration in December 2004; Tianjin University (天津大學) in Tianjin, the PRC, with a master's degree of business administration for senior management in July 2007; and Hebei University of Technology (河北工業大學) in Tianjin City, the PRC, with a doctor's degree of management in June 2010. He was accredited as the senior economist by the Hebei Title Reform Office in December 2008.

Mr. Yao Zhijun (姚志軍) aged 47, was appointed as an independent non-executive Director on January 19, 2017 and is responsible for providing independent opinion and judgment to our Board.

Prior to join our Group, he served as the head and the legal representative of Hebei Huayide Certified Public Accountants* (河北華益德會計師事務所有限公司) from January 2004 to November 2005, the head of Beijing China Enterprise Appraisals Juncheng Certified Public Accountants* (北京中企華君誠會計師事務所) Hebei Branch from December 2005 to November 2008 and the head of the Zhongxinghua Fuhua Certified Public Accountants* (中興華富華會計師事務所) Hebei Branch from December 2008 to January 2012. Since February 2012, he has been serving as the general manager of Ruihua Certified Public Accountants (Special General Partnership)* (瑞華會計師事務所(特殊普通合伙)) Hebei Branch.

Mr. Yao graduated from Hebei College of Finance and Economics* (河北財經學院) (currently known as Hebei University of Economics and Business (河北經貿大學)) in Shijiazhuang, Hebei Province, the PRC, with a bachelor's degree in economics in June 1994. He was accredited as a certified public accountant by the Hebei Institute of Certified Public Accountants (河北省註冊會計師協會) in June 1999 and as a senior accountant granted by the Hebei Title Reform Office in November 2005. He obtained the qualification of a certified public valuer approved by China Appraisal Society (中國資產評估協會) in April 2000. In July 2005, Mr. Yao was awarded as a brilliant certified accountant in Hebei Province and in March 2015, he was awarded as a senior fellow member by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

SENIOR MANAGEMENT

Ms. Liu Qingli (劉青莉), aged 46, joined our Group and was appointed as the executive vice president of our Company in December 2015, primarily responsible for the human resources, legal compliance and daily management of our Group. Ms. Liu has over 12 years of experience in accounting and financing.

Ms. Liu served as the manager of integrated management department and the manager of financial audit department of Hebei Yikang Big (Chain) Pharmacy Co., Ltd.* (河北益康大藥房連鎖有限公司) from February 2006 to September 2008. Subsequently, Ms. Liu held several positions in Lionful Investment Holding, including the audit manager in the audit and legal department, the general manager of risk management department and the chief financial officer from September 2008 to March 2015. From March 2015 to December 2015, Ms. Liu served as the vice president in Hebei Anlian Real Estate Development Co., Limited* (河北安聯房地產開發有限公司). From December 2015 to August 2017, Ms. Liu has served as the executive vice president of Lionful Education.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Liu graduated from the Hebei College of Engineering* (河北工學院) (currently known as Hebei University of Technology (河北工業大學)) in Tianjin, the PRC, with a bachelor's degree in engineering in July 1993 and Hebei University (河北大學) in Baoding, Hebei Province, the PRC, with a master's degree in business administration in January 2015. Ms. Liu obtained the engineer certificate granted by Engineering Technology Job Qualification Intermediate Committee of Hebei Light Industry Bureau* (河北省輕工業廳工程技術職務任職資格中級評審委員會) in November 1998 and intermediate accounting certificate granted by the MOF in September 2003. She was accredited as a certified public accountant by the Hebei Institute of Certified Public Accountants of Hebei Province (河北省註冊會計師協會) in November 2006 and as a certified management accountant by the Institute of Certified Management Accountant of the United States in March 2013.

Mr. Wang Yongsheng (王永生), aged 48, was appointed as the vice president and chief financial officer of our Company on November 23, 2015, primarily responsible for the financial management and corporate governance of our Group. Mr. Wang has over 24 years of experience in accounting and finance.

From August 1993 to July 2005, Mr. Wang served as an accountant of Shijiazhuang Chemical Fiber Co., Ltd.* (石家莊化纖有限公司). From July 2005 to November 2007, Mr. Wang served as the chief financial officer of Shijiazhuang Yongtong Chemical Co., Ltd.* (石家莊永通化工有限公司) and served as the investment and budget manager of Lionful Investment Holding from November 2007 to March 2009. Mr. Wang joined our Group in April 2009 and served as an assistant to president of Shijiazhuang Institute of Technology from April 2009 to April 2011. Subsequently, he served as the assistant to general manager of Shijiazhuang Saintach from April 2011 to April 2014. From April 2014 to August 2017, Mr. Wang successively served as the deputy chief financial officer, chief financial officer and vice president of Lionful Education.

Mr. Wang graduated from Zhengzhou Textile Institute of Technology* (鄭州紡織工學院) (currently known as Zhongyuan University of Technology (中原工學院)) in Zhengzhou, Henan Province, the PRC, with a junior college graduation certificate in industrial accounting in July 1993 and graduated from Zhengzhou University (鄭州大學) in Zhengzhou, Henan Province, the PRC, with a bachelor's degree (online education) in management in June 2012. He obtained the accountant certificate granted by the MOF in May 1997.

Mr. Liu Cai (劉才), aged 70, joined our Group and was appointed as the principal of Shijiazhuang Institute of Technology on July 1, 2008, primarily responsible for the teaching management of Shijiazhuang Institute of Technology. Mr. Liu has over 43 years of experience in the education industry.

Mr. Liu successively served in several positions including the vice principal of Yanshan University* (燕山大學) from December 1975 to August 1999, the deputy secretary of party committee of Hebei Academy of Science* (河北省科學院) from August 1999 to March 2008 and the dean of Hebei Academy of Science* (河北省科學院) from March 2008 to April 2008. From May 1999 to May 2003, he was a member of the First Academic Degrees Committee of Hebei Province* (河北省第一屆學位委員會) and from January 2010 to January 2016, he was appointed as the executive council member of the Higher Education Professional Committee of China's Non-government Education Association* (中國民辦教育協會高等教育專業委員會).

Mr. Liu graduated from the Northeast Heavy Machinery Institute* (東北重型機械學院) in Qiqihar, Heilongjiang Province, the PRC (currently locating in Qinhuangdao, Hebei Province, the PRC, and known as Yanshan University* (燕山大學)), with a graduation certificate majoring in rolling machinery in November 1975 and a master's degree in engineering in April 1982, and graduation from the University of Birmingham in the United Kingdom with a doctor's degree in philosophy (mechanical engineering) in December 1985. He obtained the title of professor (specialized in engineering technique in machinery production) granted by the Department of Human Resources and Social Security of Hebei Province in

DIRECTORS AND SENIOR MANAGEMENT

November 1991 and he was awarded special government allowance for his outstanding contribution in higher education industry by the State Council in January 1994. Mr. Liu was awarded the title of “Outstanding Returned Overseas Chinese Talents of Hebei Province (河北省優秀留學回國人員) in April 2009.

Ms. Wang Lijing (王利靜), aged 37, was appointed as the general manager of Hebei Saintach on June 7, 2016, primarily responsible for the overall operation and daily management of Hebei Saintach. Ms. Wang has over 12 years of experience in the education industry and corporate management.

Ms. Wang joined our Group in July 2003 and as an editor of advertising department and human resources manager of human resource department of Lionful Education from July 2003 to March 2005, and as the secretary of Youth League Committee of Shijiazhuang Institute of Technology from March 2005 to May 2010. From May 2010 to July 2011, she served as the principal of Blue Crystal Kindergarten. Since July 2011, Ms. Wang has successively served as the assistant to general manager, deputy general manager and general manager of Hebei Saintach, and a director of Hebei Saintach since 22 December 2015. Since July 2013, Ms. Wang has been serving as a member of the second session council of the Preschool Education Professional Committee of China’s Non-government Education Association* (中國民辦教育協會學前教育專業委員會) for a term of five years.

Ms. Wang graduated from Hebei University* (河北大學) in Baoding, Hebei Province, the PRC, with a bachelor’s degree of art majoring in Chinese literature (漢語言文學) in June 2003. She obtained the qualification as a teacher of higher education granted by the Education Department of Hebei Province (河北省教育廳) in December 2005. In recognition of her contribution in education, she obtained the Award of Pre-education Development Contribution for the Year of 2013 awarded by Changan District Education Bureau of Shijiazhuang City* (石家莊市長安區教育局) in January 2014.

Save as disclosed above, no Directors or members of our senior management held any directorship positions in any other listed public companies within the three years immediately preceding the date of this prospectus, nor has he or she held any other positions with the Company or other members of our Group as of the Latest Practicable Date.

Save as disclosed above, there is no other information relating to the relationship of any of our Directors or members of our senior management with other Directors or members of our senior management or substantial or Controlling Shareholders and no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no other information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules or paragraph 41(3) of Appendix 1A to the Listing Rules.

As of the Latest Practicable Date, save as disclosed in “E. Disclosure of Interests – 1. Disclosure of interests – (a) Interests and short positions of our Directors or chief executive in our share capital and our associated corporations following the Capitalization Issue and the Global Offering” in Appendix V to this prospectus, each of our Directors did not have any interest in the Shares (within the meaning of Part XV of the SFO).

JOINT COMPANY SECRETARIES

Ms. Wong Sau Ping (黃秀萍) was appointed as our joint company secretary with effect from October 18, 2017. Ms. Wong is currently a senior manager of the Listing Services Department of TMF Hong Kong Limited (a global corporate services provider). Ms. Wong has over 15 years of experience in the company secretarial field. She obtained a bachelor’s degree in business administration and a master of arts degree majoring in professional accounting and information systems. She was admitted associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom in September 2004.

Ms. Liu Qingli was appointed as our joint company secretary with effect from October 18, 2017. For details of Ms. Liu’s biography, please see “– Senior Management” in this section.

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES

Audit Committee

We established an audit committee (the “Audit Committee”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to make recommendation to our Board on the appointment and removal of external auditor, and to assist our Board in fulfilling its oversight responsibilities in relation to our Group’s financial reporting, internal control structure, risk management processes and external audit functions, and corporate governance responsibilities. The Audit Committee of our Company consists of three members, being Mr. Yao Zhijun, Mr. Guo Litian and Mr. Ma Guoqing, with Mr. Yao Zhijun being the chairman of the Audit Committee.

Remuneration Committee

We established a remuneration committee (the “Remuneration Committee”) with written terms of reference in compliance with paragraph B1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to evaluate and make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. The Remuneration Committee consists of three members, being Mr. Ma Guoqing, Mr. Guo Litian and Mr. Liu Zhanjie, with Mr. Ma Guoqing being the chairman of the Remuneration Committee.

Nomination Committee

We established a nomination committee (the “Nomination Committee”) with written terms of reference in compliance with paragraph A5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of the Nomination Committee are to make recommendations to our Board regarding candidates to fill vacancies on the Board. The Nomination Committee consists of three members, being Mr. Li, Mr. Ma Guoqing and Mr. Yao Zhijun, with Mr. Li being the chairman of the Nomination Committee.

REMUNERATION POLICY

We value our employees and recognize the importance of a good relationship with our employees. The remuneration of our employees includes salaries and allowances.

Our Group offers competitive remuneration packages to our Directors, the aggregate amounts of emoluments (including salaries, allowances, other benefits and pension scheme contribution) paid to our Directors for the years ended December 31, 2015, 2016 and 2017 were approximately RMB377,000, RMB377,000 and RMB551,000, respectively. For the years ended December 31, 2015, 2016 and 2017, the aggregate amounts of emoluments (including salaries, allowances, other benefits and pension scheme contribution) paid to the five highest paid individuals, excluding Directors were approximately RMB908,000, RMB1,074,000 and RMB1,303,000, respectively.

DIRECTORS AND SENIOR MANAGEMENT

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. Furthermore, none of our Directors had waived any remuneration during the Track Record Period. The primary goal of the remuneration policy with regard to the remuneration packages of our Directors is to enable us to retain and motivate executive Directors by linking their compensation with performance as measured against corporate objectives achieved. The principal elements of our Group's Directors remuneration packages include basic salaries and discretionary bonuses.

Under the arrangements currently in force, we estimate that the aggregate amounts of emoluments (including salaries, allowances, benefits in kind and pension scheme contribution) payable to our Directors for the financial year ending December 31, 2018 will be approximately RMB765,000.

Save as disclosed in this prospectus, no other payments have been made, or are payable, by any member of our Group to the Directors during the Track Record Period.

We have not experienced any significant problems with our employees or disruption to our operations due to labor disputes.

COMPLIANCE ADVISER

Our Company has appointed Messis Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on, among other matters, the following matters:

- (1) (before its publication) any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share buy-backs;
- (3) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

Immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries:

Long Position in our Company

		Immediately after the Global Offering and the Capitalization Issue ⁽¹⁾	
Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Li ^{(2) (4)}	Interest in a controlled corporation	747,264,000	62.27%
Ms. Cao Yang ⁽⁴⁾	Spouse interest	747,264,000	62.27%
Sainange Holdings . .	Beneficial owner	747,264,000	62.27%
Ms. Luo ^{(3) (5)}	Interest in a controlled corporation	92,736,000	7.73%
Mr. Cao Jide ⁽⁵⁾	Spouse interest	92,736,000	7.73%
Sainray Limited . . .	Beneficial owner	92,736,000	7.73%

Notes:

- (1) Assuming the Over-allotment Option is not exercised and all interests are long positions.
- (2) Mr. Li is the sole shareholder of Sainange Holdings and he is therefore deemed to be interested in the Shares held by Sainange Holdings by the virtue of the SFO, being 747,264,000 Shares.
- (3) Ms. Luo is the sole shareholder of Sainray Limited and she is therefore deemed to be interested in the Shares held by Sainray Limited by the virtue of the SFO, being 92,736,000 Shares.
- (4) Ms. Cao Yang is the spouse of Mr. Li and she is therefore deemed to be interested in the Shares in which Mr. Li is interested by the virtue of the SFO.
- (5) Mr. Cao Jide is the spouse of Ms. Luo and he is therefore deemed to be interested in the Shares in which Ms. Luo is interested by the virtue of the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the Global Offering and Capitalization Issue (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

SHARE CAPITAL

SHARE CAPITAL

The authorized and issued share capital of our Company is as follows:

<u>Authorized share capital:</u>	<u>(HK\$)</u>
3,000,000,000 Shares	<u><u>30,000,000</u></u>

Assuming the Over-allotment Option is not exercised at all, and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

<u>Issued share capital:</u>	<u>HK\$</u>	<u>Approximate percentage of issued share capital (%)</u>
10,000 Shares in issue as of the date of this prospectus . .	100	0.00
839,990,000 Shares to be issued under the Capitalization Issue .	8,399,900	70.00
<u>360,000,000</u> Shares to be issued under the Global Offering	<u>3,600,000</u>	<u>30.00</u>
<u><u>1,200,000,000</u></u> Shares in total	<u><u>12,000,000</u></u>	<u><u>100</u></u>

Assuming the Over-allotment Option is exercised in full and without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering will be as follows:

<u>Issued share capital:</u>	<u>HK\$</u>	<u>Approximate percentage of issued share capital (%)</u>
10,000 Shares in issue as of the date of this prospectus . .	100	0.00
839,990,000 Shares to be issued under the Capitalization Issue .	8,399,900	66.99
<u>414,000,000</u> Shares to be issued under the Global Offering and the Over-allotment Option ⁽²⁾	<u>4,140,000</u>	<u>33.01</u>
<u><u>1,254,000,000</u></u> Shares in total	<u><u>12,540,000</u></u>	<u><u>100</u></u>

Notes:

- (1) The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.
- (2) Assuming a total of 54,000,000 Shares will be issued upon exercise of the Over-allotment Option in full.

SHARE CAPITAL

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, as of the time of the Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules.)

RANKING

The Offer Shares and the Shares which may be issued under the Over-allotment Option or upon exercise of any options that may be granted under the Share Option Scheme are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus, except for the entitlements under the Capitalization Issue.

ALTERATIONS OF SHARE CAPITAL

Our Company may from time to time by ordinary resolution or special resolution (as the case may be) of shareholders alter the share capital of our Company. For a summary of the provisions in the Article regarding alterations of share capital, please see “2. Articles of Association – (a) Shares – (iii) Alteration of Capital” in Appendix IV to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on May 4, 2018. The principal terms of the Share Option Scheme are summarized in “F. Share Option Scheme” in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETINGS ARE REQUIRED

Our Company has only one class of Shares, namely ordinary shares, and each ranks *pari passu* with the other Shares.

Pursuant to the Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) divide its shares into several classes; (iv) subdivide its shares into shares of smaller amount; and (v) cancel any shares which have not been taken. In addition, our Company may subject to the provisions of the Companies Law reduce its share capital or capital redemption reserve by its shareholders passing a special resolution. Please see “Summary of the Constitution of the Company and Cayman Islands Companies Law – 2. Articles of Association – (a) Shares – (iii) Alteration of capital” in Appendix IV to this prospectus for further details.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate number of not more than the sum of:

- (i) 20% of the total number of Shares in issue immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option and the Share Option Scheme); and
- (ii) the total number of Shares repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

SHARE CAPITAL

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in an general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Further details of this general mandate are set out in "A. Further Information about our Company – 4. Written resolutions of our Shareholders passed on May 4, 2018" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the total number of Shares in issue or to be issued immediately following the completion of the Capitalization Issue and the Global Offering (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option and the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "A. Further Information about our Company – 4. Written resolutions of our Shareholders passed on May 4, 2018" in Appendix V to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in an general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

For further details of this share repurchase mandate, see "A. Further Information about our Company – 4. Written resolutions of our Shareholders passed on May 4, 2018" in Appendix V to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis with our audited consolidated financial information, including the notes thereto, included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with IFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future development, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information set out in "Risk Factors" and "Forward-Looking Statements" in this prospectus.

For the purpose of this section, unless the context otherwise requires, references to 2015, 2016 and 2017 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a large established private education service provider based in Hebei Province, China, serving a wide range of students from preschool students in our kindergartens, to primary school, middle school and high school students in our tutorial centers, to junior college and continuing education students in our college. As of the Latest Practicable Date, we had a total of 15 schools located in Shijiazhuang, Hebei Province, including one private college (Shijiazhuang Institute of Technology), six Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and eight Saintach Kindergartens.

We had approximately 19,181 students enrolled at our college and kindergartens as of December 31, 2017. We delivered approximately 367,752 Tutoring Hours to approximately 4,928 students at our tutorial centers for the year ended December 31, 2017. We are strategically located in the Integrated Area, the largest urbanized region in Northern China and a vibrant and fast-growing area with a large population that we believe provides us with significant growth potential.

We derive revenue primarily from tuition (including tutoring fees) from our schools and tutorial centers, which together accounted for approximately 80.8%, 79.5% and 78.8%, of our total revenue in the years ended December 31, 2015, 2016 and 2017, respectively. In addition to tuition, other sources of income primarily include boarding fees, service income for provision of college operation services to the west campus of Sifang College and franchise fees we charged to third party kindergartens for granting the use of our brand and curriculum and providing related consulting services.

We experienced significant growth in our student enrollment over the Track Record Period. Our overall combined student enrollment in Shijiazhuang Institute of Technology and our Saintach Kindergartens cumulatively grew from approximately 11,913 as of June 30, 2015 to approximately 14,820 as of June 30, 2017, and further to 19,181 as of December 31, 2017. Student enrollment in our Saintach Tutorial Centers, represented by Tutoring Hours delivered to students, also grew from approximately 329,635 Tutoring Hours (covering approximately 3,710 students tutored) for the year ended December 31, 2015 to approximately 367,752 Tutoring Hours (covering approximately 4,928 students tutored) for the year ended December 31, 2017.

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We also experienced growth in our revenue, gross profit, net profit and adjusted net profit over the Track Record Period. Our total revenue grew from RMB147.3 million for the year ended December 31, 2015 to RMB169.7 million for the year ended December 31, 2017. Our gross profit and net profit grew from RMB59.9 million and RMB26.7 million, respectively, for the year ended December 31, 2015 to RMB76.4 million and RMB45.0 million, respectively, for the year ended December 31, 2017. Our adjusted net profit grew significantly from RMB26.7 million for the year ended December 31, 2015 to RMB56.7 million for the year ended December 31, 2017. Please see “– Key Components of Our Results of Operations – Non-IFRS Measure” in this section for details.

BASIS OF PRESENTATION

Pursuant to the Corporate Reorganization as described in “History and Corporate Structure – Corporate Reorganization” in this prospectus, our Company became the holding company of the companies now comprising the Group on October 17, 2017.

During the Track Record Period, due to regulatory restrictions on foreign ownership in the schools in the PRC, our businesses were carried out by Zerui Education, Shijiazhuang Institute of Technology, Shijiazhuang Saintach, Saintach Tutorial Schools, Hebei Saintach and Saintach Kindergartens. Pursuant to the Corporate Reorganization, Sheng Dao Xiang Cheng, our Company’s wholly-owned subsidiary, has entered into the Structured Contracts with, among others, our PRC Operating Entities and their respective equity holders. The arrangements of the Structured Contracts enable Sheng Dao Xiang Cheng to exercise effective control over our PRC Operating Entities and obtain substantially all economic benefits of our PRC Operating Entities. Accordingly, our PRC Operating Entities are consolidated in the financial statements for the Track Record Period continuously. Please see “Structured Contracts” in this prospectus and note 2.1 to the Accountants’ Report in Appendix I to this prospectus for details.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, affected by a number of factors, which primarily include the following:

Demand for Private Education in China

Our financial performance is significantly affected by the demand for private education in China, which is in turn affected by a number of factors, including the levels of economic development and changes in demographics. Our business has benefited from the growth of China’s economy and the increasing demand for private education in China. According to the Frost & Sullivan Report, as the PRC’s economy has continued to grow over the past few years, its per capita GDP has increased at a fast pace. Per capita GDP in China grew from RMB36,018 in 2011 to RMB59,502 in 2017, representing a CAGR of approximately 8.7%, and is expected to reach RMB78,647 by 2021. The overall economic growth and the increase in per capita GDP in China have had a positive effect on per capita expenditure on education in China, which increased at a CAGR of 9.1% from 2011 to 2017, according to the Frost & Sullivan Report.

FINANCIAL INFORMATION

In addition, in 2013, the Chinese government announced that it would gradually relax its “one-child policy” as a measure to stimulate birth rates, and in 2016, China adopted a formal “two-child policy” allowing all families to have two children. According to the Frost & Sullivan Report, the policy change is expected to have a significant impact on growth of the number of school-aged children. We anticipate that this will further stimulate the demand for private education in China.

Furthermore, we believe the Integrated Area in which we have already established a solid presence provides even greater opportunities for our future growth. According to the Frost & Sullivan Report, the number of students enrolled in private schools in the Integrated Area is expected to increase at a CAGR of 7.4% from 2017 to 2021, greatly surpassing the increase in the PRC as a whole during the same period. In addition, as the Integrated Area accelerates its pace towards industrial transformation, there is a growing demand for students equipped with higher quality skills and training. We plan to take advantage of such opportunities through strategic expansion and development in this area. Please see “Business – Our Business Strategies – Expand our network and increase our market penetration in the Integrated Area, and strengthen our brand and reputation” in this prospectus for details.

Student Enrollment

Our revenue generally depends on the number of students enrolled at our schools and tutorial centers and the level of tuition we charge. During the Track Record Period, the total number of students enrolled at our schools (not including our Saintach Tutorial Centers) increased from approximately 11,913 as of June 30, 2015 to approximately 14,820 as of June 30, 2017, and further to 19,181 as of December 31, 2017. Student enrollment in our Saintach Tutorial Centers, as reflected by the number of Tutoring Hours we delivered, grew from approximately 329,635 Tutoring Hours (covering approximately 3,710 students tutored) for the year ended December 31, 2015 to approximately 367,752 Tutoring Hours (covering approximately 4,928 students tutored) for the year ended December 31, 2017.

Student enrollment is generally dependent on, among other factors, general trends in private education in China as well as the specific reputation of our schools. According to the Frost & Sullivan Report, the total number of students enrolled in private education in China is expected to continue to grow from approximately 50.9 million in 2017 to approximately 64.4 million in 2021, representing a CAGR of 6.1%. We believe the educational philosophies of our schools and our flexible and diverse educational curriculums help us attract students who seek high-quality private education as a pathway to their academic and career goals. Moreover, the quality of our teachers has also played a major factor in the past, and we believe will continue to play an important role in the success of our schools.

Tuition

Our results of operations are affected by the level of tuition (including tutoring fees) we are able to charge. Tuition constituted a large portion of our total revenue over the Track Record Period, representing 80.8%, 79.5% and 78.8%, respectively, of our total revenue for the years ended December 31, 2015, 2016 and 2017. The tuition we charge is typically based on the demand for our education programs, the cost of our operations, the tuition charged by our competitors, our pricing strategy to gain market share and general economic conditions in China and the areas in which our schools are located. In connection with our strategy to increase our profitability, we raised the tuition rates at our schools and tutorial centers over the Track Record Period. Please see “Business – Our Schools” in this prospectus for further details. According to the Frost & Sullivan Report, tuition at our kindergartens and Shijiazhuang Institute of Technology for the 2014-2015, 2015-2016, 2016-2017 and 2017-2018 school years and at our tutorial centers for the years ended December 31, 2015, 2016 and 2017 were relatively lower than the average tuition charged by top-tier private schools and peer after-school tutoring service providers in China. Historically, we have kept our tuition rates at levels we believe are competitive as compared to our competitors in order to attract more students and thereby, increase our student enrollment and market share.

FINANCIAL INFORMATION

Our tuition rates are also generally subject to prior approval, in the case of Shijiazhuang Institute of Technology, or filing, in the case of Saintach Tutorial Centers or Saintach Kindergartens, with the relevant government pricing authorities in the locations where we operate. Please see “Regulatory Overview” in this prospectus for details of tuition regulations in China. As part of our strategy to optimize our revenue structure and subject to approval or filing with the relevant PRC regulatory authorities, we plan to explore opportunities to increase our tuition in the future. We believe that continuing to increase the quality of our education services and enhance our reputation in the future would allow us to continue to increase tuition without any material adverse impact on our business or results of operations. If we are able to increase our tuition while maintaining or continuing to increase our student enrollment, we could improve our gross margin. However, there is no guarantee we will be able to continue to raise our tuition rates in the future. Please see “Risk Factors – Risks Relating to Our Business and Our Industry – Our business and results of operations to a large extent depend on the level of tuition we are able to charge at our schools and tutorial centers and our ability to maintain and raise our tuition” in this prospectus for details. In addition, changes to tuition rates at Shijiazhuang Institute of Technology and Saintach Kindergartens are only applicable to new students while existing students continue to pay the same rates that were in effect when they were admitted, which affect the speed at which average tuition rates can increase.

Teachers’ Salaries

Our profitability depends, in part, on our operating costs and expenses, a significant component of which is compensation to our teachers and other educational staff primarily consisting of salaries and other benefits of our teachers. We offer competitive remuneration packages to our teachers in order to attract and retain high-caliber teachers and maintain and improve the teaching quality of our schools. For the years ended December 31, 2015, 2016 and 2017, salaries and other benefits for our teachers and other educational staff amounted to RMB55.1 million, RMB54.3 million and RMB59.4 million, respectively, representing 37.4%, 37.0% and 35.0% of our revenue, and 63.1%, 68.7% and 63.6% of our cost of sales, respectively. Salaries and other benefits for our teachers and other educational staff increased during the Track Record Period primarily as a result of an increase in the levels of compensation. We employed 1,057, 1,012 and 1,322 teachers in our schools and tutorial centers as of December 31, 2015, 2016 and 2017, respectively. As we continue to expand our school network and increase the level of student enrollment at our existing schools, we will need to recruit more teachers. We may also need to increase teachers’ salaries and other benefits from time to time to stay competitive in the labor market. As a result, our staff costs as a percentage of revenue may increase. If we were unable to effectively manage any such increase, our profitability and results of operations may be adversely affected. Please see “Risk Factors – Our business depends on our ability to recruit and retain dedicated and qualified teachers, senior management and other qualified personnel” in this prospectus for further details.

CRITICAL ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Our financial statements have been prepared in accordance with IFRS and have been prepared under the historical cost conversion. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgments. Set forth below is certain information with respect to those accounting policies applied in preparing our financial information that we believe are most dependent on the application of these estimates and judgments and, in addition, certain other accounting policies that we believe are material to an understanding of our financial information.

For details of the significant accounting policies, judgments and estimates, please see notes 2 and 3 to the Accountants’ Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Service income includes: (a) tuition, boarding fees and the college operation service fees from Shijiazhuang Institute of Technology; (b) tuition from Saintach Kindergartens; (c) tuition from Saintach Tutorial Schools; and (d) franchise service fees from the franchised Saintach Kindergartens.

- (a) Tuition and boarding fees from Shijiazhuang Institute of Technology are generally received in advance prior to the beginning of each academic year, and are initially recorded as deferred revenue. 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 as deferred revenue and is reflected as a current liability as such amounts represent revenue that our Group expects to earn within one year. The academic year of our Group's schools is generally from September to June of the following year.

College operation service fees represent service income derived from the provision of the college operation services by our Group which includes school operation services and accommodation services provided to students of the west campus of Sifang College. The school operation service income is recognized upon the delivery of the relevant services. Accommodation service fees are collected from the students in advance and are subsequently recognized proportionately over the relevant period of the applicable program;

- (b) Tuition from Saintach Kindergartens is generally received in advance at the beginning of each month and is recognized as revenue when the education services for the month is provided;
- (c) Tutoring fees from Saintach Tutorial Centers are collected in advance on a lump-sum basis. Revenue is recognized after a service contracts with students is signed and the tutoring services are delivered; and
- (d) Franchise service fees from the franchised Saintach Kindergartens are in connection with our Group's kindergarten management services which are recognized as revenue upon the delivery of the relevant services.

Income from other services provided by our Group is recognized in the period in which the services are rendered.

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that our Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income from a financial asset is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Judgments

In the process of applying our Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the Group's audited consolidated financial information.

Structured Contracts

The PRC Operating Entities are mainly engaged in the provision of education services and the relevant management services, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

As disclosed in note 2.1 to the Accountants' Report in Appendix I to this prospectus, as part of the Corporate Reorganization, our Group exercises control over the PRC Operating Entities and enjoys substantially all economic benefits of the PRC Operating Entities through the Structured Contracts.

Our Group considers that we control our PRC Operating Entities, notwithstanding the fact that it does not hold direct equity interest in the PRC Operating Entities, as it has power over the financial and operating policies of the PRC Operating Entities and receives substantially all of the economic benefits from the business activities of the PRC Operating Entities through the Structured Contracts. Accordingly, the PRC Operating Entities have been accounted for as if they were subsidiaries during the Track Record Period.

Estimation Uncertainty

Impairment of Non-financial Assets (Other Than Goodwill)

Our Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each period during the Track Record Period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher

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of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

RESULTS OF OPERATIONS

The following table presents our selected consolidated statements of profit or loss and other comprehensive income for each of the years ended December 31, 2015, 2016 and 2017:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Revenue	147,294	146,508	169,741
Cost of sales	(87,353)	(78,971)	(93,362)
Gross profit	59,941	67,537	76,379
Other income and gains	12,103	9,417	10,097
Selling and distribution expenses	(7,693)	(7,988)	(8,005)
Administrative expenses	(21,083)	(23,542)	(28,767)
Other expenses	(458)	(270)	(438)
Finance costs	(14,600)	(4,693)	(3,843)
Profit before tax	28,210	40,461	45,423
Income tax expense	(1,474)	(443)	(385)
Profit for the year	26,736	40,018	45,038

Non-IFRS Measures – Adjusted Net Profit

Adjusted net profit for the year is derived by adding back the listing expenses we incurred in the years ended December 31, 2016 and 2017, which amounted to approximately RMB4,877,000 and RMB11,653,000, respectively, to net profit for the respective year. Adjusted net profit for the year is not prepared in accordance with IFRS. For details regarding reconciliation of adjusted net profit, a non-IFRS measure, to its closest IFRS measure, please see “– Key Components of Our Results of Operations – Non-IFRS Measure” in this section.

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Adjusted net profit	26,736	44,895	56,691

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

We derive revenue primarily from tuition (including tutoring fees) and boarding fees our schools collect from students as well as service income from providing college operation services to the west campus of Sifang College. We derive revenue from each of our three business segments: (i) Shijiazhuang Institute of Technology, (ii) Saintach Tutorial Centers, and (iii) Saintach Kindergartens. For the years

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ended December 31, 2015, 2016 and 2017, we generated total revenue of RMB147.3 million, RMB146.5 million and RMB169.7 million, respectively.

The table below sets forth the revenue generated by segment for each of the years ended December 31, 2015, 2016 and 2017:

<u>Schools</u>	<u>Year ended December 31,</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Shijiazhuang Institute of Technology			
Tuition	45,810	49,268	58,795
Boarding fees	4,881	5,173	5,739
College operation service income	19,653	19,711	19,836
– school operation service income	17,888	17,970	18,059
– student accommodation service income	1,765	1,741	1,777
Others	3,203	4,960	10,476
	<u>73,547</u>	<u>79,112</u>	<u>94,846</u>
Saintach Tutorial Centers			
Tutoring fees	38,974	42,547	45,971
Saintach Kindergartens			
Tuition	34,264	24,586	28,924
Franchise fees	509	263	–
	<u>34,773</u>	<u>24,849</u>	<u>28,924</u>
Total	<u>147,294</u>	<u>146,508</u>	<u>169,741</u>

Shijiazhuang Institute of Technology

Segment revenue from Shijiazhuang Institute of Technology constituted 49.9%, 54.0% and 55.9%, respectively, of our total revenue for the years ended December 31, 2015, 2016 and 2017. Components of segment revenue from Shijiazhuang Institute of Technology include: (i) tuition charged to full-time students at Shijiazhuang Institute of Technology, (ii) boarding fees charged to full-time boarding students at Shijiazhuang Institute of Technology, (iii) service income from Lionful Education related to college operation and student accommodation services we provided to the west campus of Sifang College, as well as certain other minor components, such as (a) service fees sharing in relation to our collaboration with other higher educational institutions in respect of the remote online learning programs, (b) income derived from provision of vocational training and examination preparation courses, and (c) revenue we received from University Town Management Company for granting it the right to manage our canteen.

We generally require tuition and boarding fees for a full school year to be paid to our Shijiazhuang Institute of Technology prior to the commencement of each school year, and we recognize revenue proportionately over the course of the school year. In the event a student leaves his/her school during the school year, we have refund policies in place. Please see “Business – Our Schools” in this prospectus for further details.

Saintach Tutorial Centers

Segment revenue from Saintach Tutorial Centers, which is generated from tutoring fees charged to students enrolled at our tutorial centers, constituted 26.5%, 29.0% and 27.1%, respectively, of our total revenue for the years ended December 31, 2015, 2016 and 2017.

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Saintach Kindergartens

Segment revenue from Saintach Kindergartens constituted 23.6%, 17.0% and 17.0%, respectively, of our total revenue for the years ended December 31, 2015, 2016 and 2017. Components of segment revenue from Saintach Kindergartens include: (i) tuition charged to students for the education services we provided at our Saintach Kindergartens, and (ii) franchise fees received pursuant to the franchise arrangements we entered into with third party kindergartens for our franchise services, including granting the use of our brand name and curriculum and provision of consulting services relating to the opening and operations of the franchisees.

Cost of Sales, Gross Profit and Gross Margin

Our cost of sales primarily consists of staff costs, rental fees, depreciation and amortization and utilities. The following table sets forth the components of our cost of sales for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total
Staff costs	55,109	63.1	54,252	68.7	59,414	63.6
Rental fees	8,920	10.2	6,227	7.9	9,300	10.0
Depreciation and amortization expenses	6,614	7.6	6,142	7.8	12,652	13.6
Utilities	5,195	5.9	3,699	4.7	3,090	3.3
Meal catering expenses	3,747	4.3	2,467	3.1	2,698	2.9
Others	7,768	8.9	6,184	7.8	6,208	6.6
Total	87,353	100.0	78,971	100.0	93,362	100.0

Staff costs constitute the largest portion of our cost of sales and consist of salaries and benefits payable to our teachers and other educational staff. Staff costs amounted to RMB55.1 million, RMB54.3 million and RMB59.4 million, respectively, for the years ended December 31, 2015, 2016 and 2017, representing 63.1%, 68.7% and 63.6% of our total cost of sales, respectively, for the same periods. Rental fees represent the expenses incurred for the lease of school facilities and premises. Depreciation and amortization expenses relate to the depreciation and amortization of property, plant and equipment and leasehold land used for providing education services. Utilities represent the cost of gas, water and electricity used for providing education services. Meal catering expenses represent the expenses incurred in connection with the meal catering services provided by our Saintach Kindergartens.

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The following table sets forth the breakdown of our revenue, cost of sales, gross profit and gross margin by business segment for the periods indicated:

	Year ended December 31,					
	2015		2016		2017	
	Amount/ Percentage	% of Total	Amount/ Percentage	% of Total	Amount/ Percentage	% of Total
(RMB'000, except percentages)						
Segments:						
Shijiazhuang Institute of Technology						
Segment revenue	73,547	49.9	79,112	54.0	94,846	55.9
<i>Including: college operation</i>						
<i>service income</i>	19,653	13.3	19,711	13.5	19,836	11.7
Segment cost of sales	(30,203)	34.6	(29,961)	37.9	(41,345)	44.3
Segment gross profit	43,344	72.3	49,151	72.8	53,501	70.1
Segment gross margin	58.9%	–	62.1%	–	56.4%	–
Saintach Tutorial Centers						
Segment revenue	38,974	26.5	42,547	29.0	45,971	27.1
Segment cost of sales	(25,455)	29.1	(29,500)	37.4	(29,538)	31.6
Segment gross profit	13,519	22.6	13,047	19.3	16,433	21.5
Segment gross margin	34.7%	–	30.7%	–	35.7%	–
Saintach Kindergartens						
Segment revenue	34,773	23.6	24,849	17.0	28,924	17.0
Segment cost of sales	(31,695)	36.3	(19,510)	24.7	(22,479)	24.1
Segment gross profit	3,078	5.1	5,339	7.9	6,445	8.4
Segment gross margin	8.9%	–	21.5%	–	22.3%	–
Total:						
Revenue	147,294	100.0	146,508	100.0	169,741	100.0
Cost of sales	(87,353)	100.0	(78,971)	100.0	(93,362)	100.0
Gross profit	59,941	100.0	67,537	100.0	76,379	100.0
Gross margin	40.7%	–	46.1%	–	45.0%	–

Shijiazhuang Institute of Technology

The principal components of cost of sales related to our Shijiazhuang Institute of Technology primarily include staff costs, utilities, depreciation and amortization expenses relating to renovation and upgrade of office buildings and student dormitories, professional training service expenses incurred for provision of preparatory courses for qualification examinations and teaching activity expenses. Segment cost of sales was RMB30.2 million, RMB30.0 million and RMB41.3 million for the years ended December 31, 2015, 2016 and 2017, respectively.

For the years ended December 31, 2015, 2016 and 2017, segment gross profit from our Shijiazhuang Institute of Technology was RMB43.3 million, RMB49.2 million and RMB53.5 million, respectively. Our segment gross margin was 58.9%, 62.1% and 56.4%, respectively, for the years ended December 31, 2015, 2016 and 2017.

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If college operation service income was excluded from the segment revenue of Shijiazhuang Institute of Technology, for the three years ended December 31, 2015, 2016 and 2017 (i) segment revenue for Shijiazhuang Institute of Technology would be RMB53.9 million, RMB59.4 million and RMB75.0 million, respectively, (ii) segment gross profit for Shijiazhuang Institute of Technology would be RMB31.8 million, RMB36.9 million and RMB42.3 million, respectively (assuming that the operation of the west campus of Sifang College is similar to and the gross profit margin of west campus of Sifang College is the same as that of Shijiazhuang Institute of Technology on the bases that i) the tuition fee per student effectively received by us from the students enrolled in the west campus of Sifang College is at a similar level to that of a substantial number of students enrolled in Shijiazhuang Institute of Technology; ii) average teachers' salaries of private higher education institutions in Shijiazhuang, including Shijiazhuang Institute of Technology and the west campus of Sifang College, are at a similar level, as confirmed by Frost & Sullivan, our industry expert; and iii) students from both Shijiazhuang Institute of Technology and the west campus of Sifang College have equal access to the facilities and teaching equipment of Shijiazhuang Institute of Technology), and (iii) segment gross profit margin for Shijiazhuang Institute of Technology would be 58.9%, 62.1% and 56.4%, respectively. The above segment gross profit and gross profit margin figures are estimates for illustration purpose only as our Group is unable to accurately identify what portion of certain cost items were incurred in relation to the provision of college operation services for the west campus of Sifang College as the relevant costs are generally shared across our Shijiazhuang Institute of Technology business segment.

Saintach Tutorial Centers

The principal components of cost of sales related to our Saintach Tutorial Centers primarily include staff costs and rental fees incurred for the lease of school premises for our tutorial centers. Segment cost of sales was RMB25.5 million, RMB29.5 million and RMB29.5 million for the years ended December 31, 2015, 2016 and 2017, respectively.

For the years ended December 31, 2015, 2016 and 2017, segment gross profit from our Saintach Tutorial Centers was RMB13.5 million, RMB13.0 million and RMB16.4 million, respectively. Our segment gross margin was 34.7%, 30.7% and 35.7%, respectively, for the years ended December 31, 2015, 2016 and 2017.

Saintach Kindergartens

The principal components of cost of sales related to our Saintach Kindergartens primarily include staff costs, rental fees incurred for the lease of school premises for our kindergartens, canteen expenses and depreciation and amortization expenses. Segment cost of sales was RMB31.7 million, RMB19.5 million and RMB22.5 million for the years ended December 31, 2015, 2016 and 2017, respectively.

For the years ended December 31, 2015, 2016 and 2017, segment gross profit from our Saintach Kindergartens was RMB3.1 million, RMB5.3 million and RMB6.4 million, respectively. Our segment gross margin was 8.9%, 21.5% and 22.3%, for the years ended December 31, 2015, 2016 and 2017, respectively.

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Sensitivity Analysis

The following table sets out a sensitivity analysis of: (i) the effect of the fluctuations of tuition during the Track Record Period, and (ii) the effect of the fluctuations of our staff costs during the Track Record Period, assuming no change of depreciation and amortization or any other costs. The sensitivity analysis involving tuition and staff costs is hypothetical in nature and we assume that all other variables remain constant. The following sensitivity analysis is for illustrative purposes only, and indicates the potential impact on our profitability during the Track Record Period if the relevant variables increased or decreased to the extent illustrated. To illustrate the potential effect on our financial performance, the sensitivity analysis below shows the potential impact on our net profit with a 5% and 10% increase or decrease in tuition income and staff costs. While none of the hypothetical fluctuation ratios applied in the sensitivity analysis equals the historical fluctuations of the tuition and staff costs, we believe that the application of hypothetical fluctuations of 5% and 10% in the tuition income and staff costs presents a meaningful analysis of the potential impact of changes in the tuition and staff costs on our revenue and profitability.

For the year ended December 31,			
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
<i>Sensitivity analysis of tuition</i>			
Tuition income (decrease)/increase	Impact on net profit for the year		
(10)%	(13,144)	(12,775)	(14,299)
(5)%	(6,572)	(6,388)	(7,150)
5%	6,572	6,388	7,150
10%	13,144	12,775	14,299
<i>Sensitivity analysis of staff costs</i>			
Staff cost (decrease)/increase	Impact on net profit for the year		
(10)%	4,881	4,666	5,054
(5)%	2,441	2,333	2,527
5%	(2,441)	(2,333)	(2,527)
10%	(4,881)	(4,666)	(5,054)

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Other Income and Gains

Other income and gains consist of (i) interest income from banks and related parties, (ii) site use fees charged to certain secondary vocational schools and companies in connection with short-term usage of the premises and facilities of Shijiazhuang Institute of Technology to organize teaching activities and training sessions for external use, (iii) gain on disposal of operating assets of five self-operated Saintach Kindergartens in 2016, and (iv) income arising from sales of textbooks, teaching materials, school supplies and uniforms. The following table sets forth the breakdown of our other income and gains for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest income			
– from banks	43	73	648
– from related parties	8,004	–	–
Less: business tax and surcharges	448	–	–
	<u>7,599</u>	<u>73</u>	<u>648</u>
Site use fees	1,343	3,319	4,636
Gain on disposal of operating assets of certain kindergartens	–	2,730	–
Sale of education materials and living goods . . .	1,399	2,055	2,864
Others	1,762	1,240	1,949
Total	<u><u>12,103</u></u>	<u><u>9,417</u></u>	<u><u>10,097</u></u>

The interest income from related parties totaling RMB8.0 million in the year ended December 31, 2015 represents interest payments from Lionful Education and Hebei Anlian Real Estate Development Co., Limited (河北安聯房地產開發有限公司) (“Hebei Anlian”) in relation to funds we had borrowed and then extended to these related parties in the form of loans in order to facilitate their receiving the funding they needed. In 2014, we obtained an entrustment loan (“Entrustment Loan”) totaling RMB117.0 million from Lionful Investment Holding through a trust fund company, Bohai International Trust Co., Ltd. (“Bohai International”), and extended the same amount of proceeds to Lionful Education and Hebei Anlian. The Entrustment Loan was primarily used to finance the working capital of Lionful Education and Hebei Anlian. Lionful Education and Hebei Anlian paid interest to us equivalent to the amount of the interests we paid to Bohai International under the Entrustment Loan. In addition, we also incurred business tax and surcharges with regard to receipt of interest income from Lionful Education and Hebei Anlian. Please see “– Key Components of our Results of Operations – Finance Costs” and “– Related Party Transactions” in this section and note 30(d)(1) to the Accountants’ Report in Appendix I to this prospectus for further details.

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With respect to the Entrustment Loan, our PRC Legal Advisor is of the view that:

- as Bohai International is a financial institution licensed under PRC laws to engage in trust-related business (including loan business), the Entrustment Loan is in compliance with the relevant PRC laws and regulations; and
- the loan agreements among Hebei Anlian, Lionful Education and the Company did not comply with the Lending General Provisions (貸款通則) promulgated by the People's Bank of China ("PBOC") in 1996. Article 61 of the Lending General Provisions prohibits any financing arrangements/lending transactions between non-financial institutions. However, our PRC Legal Advisor further advised that, notwithstanding the Lending General Provisions, the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) ("Judicial Interpretations on Private Lending Cases") has made new interpretations concerning financing arrangements/lending transactions between non-financial institutions on September 1, 2015, which prevails over the relevant prohibitive rules of the Lending General Rules. According to the Notice of the Supreme People's Court on Carefully Study and Implementation of the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Private Lending Case (最高人民法院關於認真學習貫徹適用《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》的通知), commencing from September 1, 2015, in determining the validity of private lending transactions, the People's Court shall apply the Judicial Interpretations on Private Lending Cases if such private lending transactions happened before September 1, 2015. Therefore, the Judicial Interpretations on Private Lending Case is applicable to any dispute, concerning financing arrangements/lending transactions between non-financial institutions, that arises after September 1, 2015, whether or not the financing arrangements/lending transactions in concern happened before or after September 1, 2015. According to Article 11 of the Judicial Interpretations on Private Lending Cases, the Supreme People's Court recognizes the validity and legality of financing arrangements/lending transactions between non-financial institutions so long as certain requirements, such as the interest rates charged, are satisfied.

On this basis, and given that (i) all principals and interest under the Entrustment Loan had been repaid in 2015; and (ii) as of the Latest Practicable Date, no disputes had arisen among us, Hebei Anlian and Lionful Education, our PRC Legal Advisor is of the opinion that, in the event of any disputes among us, Hebei Anlian and Lionful Education after the implementation of the Judicial Interpretations on Private Lending Cases, such inter-company loan agreements are legal, valid and enforceable and the possibility for the PBOC to impose administrative liability on us, as the lender, in relation to such loans is remote.

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Selling and Distribution Expenses

Selling and distribution expenses primarily consist of (i) student admission expenses, which primarily comprise commissions and bonuses paid to student recruitment staff and other related marketing expenses, (ii) salaries and other benefits for our recruitment and marketing staff, and (iii) advertising expenses incurred for the purposes of promoting our schools, such as printing brochures, gift purchasing and outdoor advertising. The following table sets forth the breakdown of our selling and distribution expenses for the years ended December 31, 2015, 2016 and 2017:

	Year ended December 31,					
	2015		2016		2017	
	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total
Student admission expenses	3,036	39.5	3,032	38.0	2,100	26.2
Salaries and benefits	1,399	18.2	1,894	23.7	3,019	37.7
Advertising expenses	2,174	28.3	2,106	26.4	2,065	25.8
Depreciation and amortization . .	17	0.2	8	0.1	—	—
Others	1,067	13.8	948	11.8	821	10.3
Total	7,693	100.0	7,988	100.0	8,005	100.0

Administrative Expenses

Administrative expenses primarily consist of (i) salaries and other benefits for administrative staff, (ii) service and meeting expenses related to service fees incurred in connection with campus landscape design and improvements, employee file management, and cleaning and security services rendered, (iii) office expenses, (iv) costs of repairs relating to renovation and upgrade of our office facilities (not including those on our school premises), and (v) expenses incurred in connection with the Listing. The following table sets forth the breakdown of our administrative expenses for the years ended December 31, 2015, 2016 and 2017:

	Year ended December 31,					
	2015		2016		2017	
	RMB'000	% of Total	RMB'000	% of Total	RMB'000	% of Total
Salaries and benefits	14,545	69.0	13,499	57.3	11,230	39.0
Service and meeting expenses . .	1,465	6.9	1,091	4.6	1,772	6.2
Office expenses	1,493	7.1	1,007	4.3	902	3.1
Costs of repairs	1,153	5.5	543	2.3	240	0.8
Rental expenses	459	2.2	468	2.0	563	2.0
Depreciation and amortization . .	402	1.9	248	1.1	129	0.4
Listing expenses	—	—	4,877	20.7	11,653	40.5
Others	1,566	7.4	1,809	7.7	2,278	8.0
Total	21,083	100.0	23,542	100.0	28,767	100.0

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Other Expenses

Other expenses consist primarily of expenses relating to losses on disposal of various fixed assets.

Finance Costs

Finance costs consist of (i) interest expenses for our bank loans and other borrowings from financial institutions (including Bohai International and two independent financial lease companies), and (ii) financing consultancy service charges we paid to certain financial lease companies and financing guarantee companies to obtain banks loans and other borrowings. The following table sets forth the breakdown of our finance costs for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest on bank and other borrowings			
– in relation to Bohai International	8,004	–	–
– in relation to banks and other financial institutions	4,859	3,810	3,061
	12,863	3,810	3,061
Financing consultancy service charges	1,737	883	782
Total	14,600	4,693	3,843

The amount of RMB8.0 million included in the interest on bank and other borrowings for the year ended December 31, 2015 represents the interest expenses we paid to Bohai International for the Entrustment Loan described in “– Key Components of our Results of Operations – Other Income and Gains” in this section.

Taxation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

Our Company’s directly held subsidiary was incorporated in the BVI as an exempted company with limited liability under the BVI Companies Act 2004 and accordingly is not subject to income tax.

Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as our Group did not generate any assessable profits arising in Hong Kong during the Track Record Period.

PRC Corporate Income Tax

Pursuant to the PRC Income Tax Law and the respective regulations, all of our Group’s non-school subsidiaries established in the PRC are subject to the PRC Corporate Income Tax (“corporate income tax”) of 25% during the Track Record Period.

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In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation we obtained from such authorities, except for our tutorial centers and certain kindergartens, no corporate income tax was imposed on Shijiazhuang Institute of Technology and certain kindergartens for the education services provided since their establishment.

The following table sets forth the corporate income tax rates applicable to our schools during the Track Record Period:

School	Applicable Corporate Income Tax Rate Year Ended December 31,		
	2015	2016	2017
Shijiazhuang Institute of Technology ⁽¹⁾	0%	0%	0%
Saintach Tutorial Schools			
Zhicheng Tutorial School	25%	25%	25%
Changan Tutorial School	25%	25%	25%
Qiaoxi Tutorial School	25%	25%	25%
Donggang Tutorial School	N/A	25%	25%
Huixuan Tutorial School	N/A	25%	25%
High-tech Zone Tutorial School	N/A	25%	25%
Saintach Kindergartens ⁽²⁾			
Fukang Kindergarten ⁽³⁾	0%	0%	0%
Zhengding Kindergarten ⁽³⁾	0%	0%	0%
Tianshan Kindergarten ⁽³⁾	0%	0%	0%
Blue Crystal Kindergarten	25%	25%	25%
Lidu Kindergarten	25%	25%	25%
Jianhua Kindergarten	25%	25%	25%
Fumenli Kindergarten ⁽⁴⁾	0%	25%	25%
Qinghui Kindergarten ⁽⁴⁾	0%	0%	25%

Notes:

- (1) Based on the written confirmation from Shijiazhuang Luquan District Local Tax Bureau Development Zone Branch (石家莊市鹿泉區地方稅務局開發區稅務分局), which confirmed that it is the competent local tax authority in charge of the supervision and collection of corporate income tax of Shijiazhuang Institute of Technology on July 3, 2017, no corporate income tax is imposed on Shijiazhuang Institute of Technology for income generated from provision of its education services. In addition, based on the confirmation from Shijiazhuang Luquan District Local Tax Bureau Development Zone Branch and Shijiazhuang Luquan District State Tax Bureau (石家莊市鹿泉區國家稅務局), all preferential tax treatments enjoyed by Shijiazhuang Institute of Technology are in compliance with relevant PRC laws and regulations. As a result, no income tax expense was recognized for the income from provision of education services by Shijiazhuang Institute of Technology during the Track Record Period. As advised by our PRC Legal Advisor, the aforesaid tax bureaus are the competent authorities to issue such confirmations.
- (2) All of our eight self-operated Saintach Kindergartens are located in Shijiazhuang, Hebei Province. While these kindergartens carry out businesses of the same nature, their treatment for tax purposes has varied somewhat from district to district over the Track Record Period due to differing interpretations and implementation of tax policies adopted by the local tax offices of Shijiazhuang State Tax Bureau and Shijiazhuang Local Tax Bureau in the different districts in which such kindergartens are operated.
- (3) During the Track Record Period, no corporate income tax was payable with respect to income generated from provision of education services by three of our kindergartens, namely, Fukang Kindergarten, Zhengding Kindergarten and Tianshan Kindergarten, based on confirmations from Shijiazhuang Luquan District Local Tax Bureau First Branch (石家莊市鹿泉區地方稅務局第一稅務分局), Shijiazhuang Zhengding County Local Tax Bureau Second Branch (石家莊市正定縣地方稅務局第二稅務分局) and Shijiazhuang Hi-Tech Park Local Tax Bureau Fourth Branch (石家莊高新技術產業開發區地方稅務局第四稅務分局). As advised by our PRC Legal Advisor, the aforesaid tax bureaus are the competent authorities to issue such confirmations.
- (4) Fumenli Kindergarten and Qinghui Kindergarten, only became subject to corporate income tax starting from May 1, 2016 and April 1, 2017, respectively, due to change of the governing tax authorities of the districts in which they were domiciled. Prior to these dates, no corporate income tax was imposed on these two kindergartens for income generated from provision of preschool services.

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Our income tax expenses for each of the years ended December 31, 2015, 2016 and 2017 were approximately RMB1.5 million, RMB0.4 million and RMB0.4 million, respectively, representing an effective tax rate of 5.2%, 1.1% and 0.8%, respectively. During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes when due and there are no matters in dispute or unresolved with the relevant tax authorities.

Following the implementation of a “variable interest entity” structure with the execution of the Structured Contracts on October 17, 2017 we are subject to additional amounts of PRC income tax and value-added tax. If such structure had been in effect during the Track Record Period, we estimate, based on the prevailing laws and regulations up to date, that in the worst case scenario our net profit would have decreased by approximately 24.0%, 23.9% and 25.1% for the years ended December 31, 2015, 2016 and 2017, respectively, after taking into consideration the following major factors: (i) at least 25% of our schools’ net profit should be retained for the schools’ working capital, (ii) Sheng Dao Xiang Cheng is subject to a 25% enterprise income tax and 6% value-added tax and surcharges; and (iii) the financial results of various entities within our Group. However, such impact is estimated without taking into consideration potential tax reductions with respect to factors such as the costs and expenses that would incur in Sheng Dao Xiang Cheng as such mitigating factors cannot be estimated accurately at this moment. The actual impact on our financial results during the Track Record Period, therefore, may not have been as significant as set out above.

Profit for the Year

For the years ended December 31, 2015, 2016 and 2017, our profit for the year was RMB26.7 million, RMB40.0 million and RMB45.0 million, respectively.

Non-IFRS Measure

To supplement our consolidated statements of profit or loss and other comprehensive income which are presented in accordance with IFRS, we also use adjusted net profit as an additional financial measure. We present this financial measure because it is used by our management to evaluate our operating performance. We also believe that such non-IFRS measure provides useful information to investors in understanding and evaluating our results of operations in the same manner as it helps our management and in comparing financial results across accounting periods and to those of our peer companies.

Adjusted net profit eliminates the effect of listing-related expenses, which is a non-recurring item. The term of adjusted net profit is not defined under IFRS. The use of adjusted net profit has material limitations as an analytical tool, as adjusted net profit does not include all items that impact our net profit for the year. We compensate for these limitations by reconciling this financial measure to the nearest IFRS performance measure, which should be considered when evaluating our performance. The following table reconciles our adjusted net profit for the year presented to profit for the year, the most directly comparable financial measure calculated and presented in accordance with IFRS:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit for the year	26,736	40,018	45,038
Add:			
Listing expenses	—	4,877	11,653
Adjusted net profit	<u>26,736</u>	<u>44,895</u>	<u>56,691</u>

FINANCIAL INFORMATION

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

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

Revenue

Our revenue increased by RMB23.2 million, or 15.8%, from RMB146.5 million for the year ended December 31, 2016 to RMB169.7 million for the year ended December 31, 2017, driven by increases in revenue from all of our business segments.

Shijiazhuang Institute of Technology

Segment revenue derived from Shijiazhuang Institute of Technology increased by RMB15.7 million, or 19.8%, from RMB79.1 million for the year ended December 31, 2016 to RMB94.8 million for the year ended December 31, 2017. This increase was primarily attributable to (i) an increase in tuition and boarding fees by RMB10.1 million, or 18.6%, from RMB54.4 million for the year ended December 31, 2016 to RMB64.5 million for the year ended December 31, 2017, primarily as a result of an increase in the number of full-time students, in particular secondary vocational school students, enrolled at Shijiazhuang Institute of Technology from approximately 7,913 as of June 30, 2016 to approximately 9,922 as of June 30, 2017, and further to approximately 11,096 as of December 31, 2017, (ii) an increase in income generated from provision of our remote online learning programs as we established a new remote online learning center together with a Beijing-based university in September 2016, which led to increased student enrollment in our remote online learning programs in the 2016-2017 school year, and (iii) revenue we received from University Town Management Company for granting it the right to manage our canteen starting in 2017.

Saintach Tutorial Centers

Segment revenue derived from Saintach Tutorial Centers increased by RMB3.5 million, or 8.2%, from RMB42.5 million for the year ended December 31, 2016 to RMB46.0 million for the year ended December 31, 2017, primarily attributable to an increase in the number of Tutoring Hours we delivered as a result of increased number of students who signed up for our tutorial programs.

Saintach Kindergartens

Segment revenue derived from Saintach Kindergartens increased by RMB4.1 million, or 16.5%, from RMB24.8 million for the year ended December 31, 2016 to RMB28.9 million for the year ended December 31, 2017. This increase was primarily attributable to an increase in the level of tuition we charged and an increase in student attendance at our Saintach Kindergartens.

Cost of Sales, Gross Profit, Gross Margin

Cost of sales increased by RMB14.4 million, or 18.2%, from RMB79.0 million for the year ended December 31, 2016 to RMB93.4 million for the year ended December 31, 2017, which is generally in line with our business growth.

Our gross profit increased by RMB8.9 million, or 13.2%, from RMB67.5 million for the year ended December 31, 2016 to RMB76.4 million for the year ended December 31, 2017. Our gross margin remained relatively stable at 46.1% and 45.0% for the years ended December 31, 2016 and 2017.

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Shijiazhuang Institute of Technology

Segment cost of sales related to Shijiazhuang Institute of Technology increased by RMB11.3 million, or 37.7%, from RMB30.0 million for the year ended December 31, 2016 to RMB41.3 million for the year ended December 31, 2017. This increase was primarily attributable to (i) an increase in amortization expenses associated with the acquisition of a parcel of leasehold land and certain school premises from Lionful Education in December 2016, (ii) an increase in our rental expenses related to the lease of teaching buildings and student dormitories from Lionful Education, and (iii) an increase in staff costs due to increased number of our teachers.

Segment gross profit from Shijiazhuang Institute of Technology increased by RMB4.3 million, or 8.7%, from RMB49.2 million for the year ended December 31, 2016 to RMB53.5 million for the year ended December 31, 2017. However, segment gross margin decreased from 62.1% for the year ended December 31, 2016 to 56.4% for the year ended December 31, 2017, primarily due to an increase in depreciation and amortization expenses, rental expenses and staff costs incurred by Shijiazhuang Institute of Technology.

Saintach Tutorial Centers

Segment cost of sales related to Saintach Tutorial Centers remained stable at RMB29.5 million for the years ended December 31, 2016 and 2017.

Segment gross profit from Saintach Tutorial Centers increased by RMB3.4 million, or 26.2%, from RMB13.0 million for the year ended December 31, 2016 to RMB16.4 million for the year ended December 31, 2017. Segment gross margin increased from 30.7% for the year ended December 31, 2016 to 35.7% for the year ended December 31, 2017, primarily because our revenue from Saintach Tutorial Centers increased from 2016 to 2017 while the corresponding cost of sales remained stable.

Saintach Kindergartens

Segment cost of sales related to Saintach Kindergartens increased by RMB3.0 million, or 15.4%, from RMB19.5 million for the year ended December 31, 2016 to RMB22.5 million for the year ended December 31, 2017. This increase was primarily attributable to an increase in staff costs as a result of (i) an increase in levels of compensation to our teachers, and (ii) an increase in the number of our teachers.

Segment gross profit from Saintach Kindergarten increased by RMB1.1 million, or 20.8%, from RMB5.3 million for the year ended December 31, 2016 to RMB6.4 million for the year ended December 31, 2017. Segment gross margin increased from 21.5% for the year ended December 31, 2016 to 22.3% for the year ended December 31, 2017, primarily attributable to an increase in the level of tuition and student attendance rate of our Saintach Kindergartens.

Other Income and Gains

Other income and gains increased by RMB0.7 million, or 7.4%, from RMB9.4 million for the year ended December 31, 2016 to RMB10.1 million for the year ended December 31, 2017, primarily due to (i) an increase in the site use fees charged to certain secondary vocational schools and companies in connection with short-term usage of the premises and facilities of Shijiazhuang Institute of Technology to organize teaching activities and training sessions, (ii) an increase in interest income generated from our term deposits deposited in 2017, partially offset by a decrease in gains from our disposal of the operating assets of five self-operated Saintach Kindergartens which we recognized in 2016.

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Selling and Distribution Expenses

Selling and distribution expenses remained stable at RMB8.0 million for the years ended December 31, 2016 and 2017.

Administrative Expenses

Our administrative expenses increased by RMB5.3 million, or 22.6%, from RMB23.5 million for the year ended December 31, 2016 to RMB28.8 million for the year ended December 31, 2017, primarily due to an increase in expenses incurred relating to the Listing, partially offset by a decrease in salaries and benefits for our administrative staff as we reduced the headcount of our administrative staff and began to outsource certain administrative and support services, including property management, cleaning, landscaping and janitorial services, to a third party contractor in December 2016.

Other Expenses

Other expenses amounted to RMB0.3 million and RMB0.4 million for the years ended December 31, 2016 and 2017, respectively.

Finance Costs

Finance costs decreased by RMB0.9 million, or 19.1%, from RMB4.7 million for the year ended December 31, 2016 to RMB3.8 million for the year ended December 31, 2017, primarily due to a decrease in interest expenses as we settled a portion of our outstanding borrowings from banks and other financial institutions as compared with the prior year.

Profit before Tax

As a result of the foregoing, our profit before tax increased by RMB4.9 million, or 12.1%, from RMB40.5 million for the year ended December 31, 2016 to RMB45.4 million for the year ended December 31, 2017.

Income Tax Expense

Our income tax expense remained stable at RMB0.4 million for the year ended December 31, 2016 and 2017. Our effective tax rate also remained relatively stable at 1.1% and 0.8% for the years ended December 31, 2016 and 2017, respectively.

Profit for the Year

As a result of the foregoing, our profit for the period increased by RMB5.0 million, or 12.5%, from RMB40.0 million in the year ended December 31, 2016 to RMB45.0 million in the year ended December 31, 2017. Our net profit margin was 27.3% and 26.5% for the years ended December 31, 2016 and 2017, respectively.

Adjusted Net Profit for the Year

Our adjusted net profit was RMB44.9 million and RMB56.7 million for the years ended December 31, 2016 and 2017, respectively. Our adjusted net profit margin was 30.6% and 33.4% for the years ended December 31, 2016 and 2017, respectively.

FINANCIAL INFORMATION

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

Revenue

Our revenue decreased slightly by RMB0.8 million, or 0.5%, from RMB147.3 million for the year ended December 31, 2015 to RMB146.5 million for the year ended December 31, 2016, primarily due to a decrease in revenue from Saintach Kindergartens, partially offset by an increase in revenue from Shijiazhuang Institute of Technology and Saintach Tutorial Centers.

Shijiazhuang Institute of Technology

Segment revenue derived from Shijiazhuang Institute of Technology increased by RMB5.6 million, or 7.6%, from RMB73.5 million for the year ended December 31, 2015 to RMB79.1 million for the year ended December 31, 2016. This increase was primarily attributable to an increase in tuition and boarding fees by RMB3.7 million, or 7.3%, from RMB50.7 million for the year ended December 31, 2015 to RMB54.4 million for the year ended December 31, 2016, primarily as a result of an increase in the number of secondary vocational school students enrolled at Shijiazhuang Institute of Technology from approximately 98 as of June 30, 2015 to approximately 332 as of June 30, 2016.

Saintach Tutorial Centers

Segment revenue derived from Saintach Tutorial Centers increased by RMB3.5 million, or 9.0%, from RMB39.0 million for the year ended December 31, 2015 to RMB42.5 million for the year ended December 31, 2016, primarily attributable to an increase in the number of Tutoring Hours we delivered, which we achieved due to (i) enhanced recruitment and marketing efforts, and (ii) opening of a new tutorial center in April 2016.

Saintach Kindergartens

Segment revenue derived from Saintach Kindergartens decreased by RMB10.0 million, or 28.7%, from RMB34.8 million for the year ended December 31, 2015 to RMB24.8 million for the year ended December 31, 2016. This decrease was primarily due to a decrease in the revenue from tuition resulting from our disposal of the operating assets of five self-operated kindergartens to an Independent Third Party in January 2016 (see “Business – Our Schools – Saintach Kindergartens” for details).

Cost of Sales, Gross Profit, Gross Margin

Cost of sales decreased by RMB8.4 million, or 9.6%, from RMB87.4 million for the year ended December 31, 2015 to RMB79.0 million for the year ended December 31, 2016, primarily due to a decrease in cost of sales from Saintach Kindergartens and Shijiazhuang Institute of Technology, partially offset by an increase in cost of sales from Saintach Tutorial Centers.

Our gross profit increased by RMB7.6 million, or 12.7%, from RMB59.9 million for the year ended December 31, 2015 to RMB67.5 million for the year ended December 31, 2016. Our gross margin increased significantly from 40.7% for the year ended December 31, 2015 to 46.1% for the year ended December 31, 2016.

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Shijiazhuang Institute of Technology

Segment cost of sales related to Shijiazhuang Institute of Technology decreased slightly by RMB0.2 million, or 0.7%, from RMB30.2 million for the year ended December 31, 2015 to RMB30.0 million for the year ended December 31, 2016. This decrease was primarily due to a decrease in utilities as we had adopted more cost-efficient self-heating system on campus starting from December 2015, partially offset by (i) an increase in staff costs due to the increased levels of compensation to our teachers to retain existing teachers and attract new qualified teaching staff, and (ii) an increase in depreciation and amortization expenses relating to renovation and upgrade of the office buildings and student dormitories.

Segment gross profit from Shijiazhuang Institute of Technology increased by RMB5.9 million, or 13.6%, from RMB43.3 million for the year ended December 31, 2015 to RMB49.2 million for the year ended December 31, 2016. Segment gross margin increased from 58.9% for the year ended December 31, 2015 to 62.1% for the year ended December 31, 2016, which resulted primarily from an increase in revenue attributable to the increased number of our full-time students, and a decrease in the segment cost of sales.

Saintach Tutorial Centers

Segment cost of sales related to Saintach Tutorial Centers increased by RMB4.0 million, or 15.7%, from RMB25.5 million for the year ended December 31, 2015 to RMB29.5 million for the year ended December 31, 2016. This increase was primarily attributable to an increase in staff costs as a result of (i) an increase in levels of compensation to our teachers, and (ii) an increase in the number of teachers in response to the increased demand for our tutoring services and opening of a new tutorial center in April 2016.

Segment gross profit from Saintach Tutorial Centers decreased slightly by RMB0.5 million, or 3.7%, from RMB13.5 million for the year ended December 31, 2015 to RMB13.0 million for the year ended December 31, 2016. Segment gross margin decreased from 34.7% for the year ended December 31, 2015 to 30.7% for the year ended December 31, 2016, primarily attributable to the opening of a new tutorial center in April 2016, which had a lower profit margin at its initial stages of operations.

Saintach Kindergartens

Segment cost of sales related to Saintach Kindergartens decreased by RMB12.2 million, or 38.5%, from RMB31.7 million for the year ended December 31, 2015 to RMB19.5 million for the year ended December 31, 2016. This decrease was primarily due to a decrease in staff costs and rental expenses, resulting from our disposal of the operating assets of five self-operated Saintach Kindergartens to an Independent Third Party in January 2016.

Segment gross profit from Saintach Kindergartens increased significantly by RMB2.2 million, or 71.0%, from RMB3.1 million for the year ended December 31, 2015 to RMB5.3 million for the year ended December 31, 2016. Segment gross margin increased significantly from 8.9% for the year ended December 31, 2015 to 21.5% for the year ended December 31, 2016, primarily attributable to our disposal of five self-operated Saintach Kindergartens which had lower gross profit margins in January 2016.

Other Income and Gains

Other income and gains decreased by RMB2.7 million, or 22.3% from RMB12.1 million for the year ended December 31, 2015 to RMB9.4 million for the year ended December 31, 2016. The decrease was primarily due to a decrease in interest income from related parties arising from the Entrustment Loan described in “– Key Components of our Results of Operations – Other Income and Gains” in this section, partially offset by (i) gains from our disposal of the operating assets of five self-operated Saintach Kindergartens in January 2016, and (ii) an increase in the site use fees charged to certain secondary vocational schools and companies in connection with short-term usage of the premises and facilities of Shijiazhuang Institute of Technology to organize teaching activities and training sessions.

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Selling and Distribution Expenses

Selling and distribution expenses increased by RMB0.3 million, or 3.9%, from RMB7.7 million for the year ended December 31, 2015 to RMB8.0 million for the year ended December 31, 2016. The increase was primarily attributable to an increase in salaries and other benefits for our recruitment and marketing staff at Shijiazhuang Institute of Technology due to the increased headcounts of such staff.

Administrative Expenses

Our administrative expenses increased by RMB2.4 million, or 11.4%, from RMB21.1 million for the year ended December 31, 2015 to RMB23.5 million for the year ended December 31, 2016, primarily due to expenses of RMB4.9 million in 2016 relating to the Listing, partially offset by (i) a decrease in staff costs related to salaries and other benefits of our administrative staff, and (ii) a decrease in cost of repairs due to lower expenses incurred for procurement of maintenance materials and supplies as a result of a large amount of purchases we made in 2015 for the on-going daily maintenance activities of Shijiazhuang Institute of Technology.

Other Expenses

Other expenses decreased by RMB0.2 million, or 40.0%, from RMB0.5 million for the year ended December 31, 2015 to RMB0.3 million for the year ended December 31, 2016, primarily due to a decrease in losses on our disposal of certain fixed assets.

Finance Costs

Finance costs decreased significantly by RMB9.9 million, or 67.8%, from RMB14.6 million for the year ended December 31, 2015 to RMB4.7 million for the year ended December 31, 2016, primarily due to a decrease in interest expenses as a result of (i) a decrease in the outstanding balance of the Entrustment Loan, and (ii) settlement of a portion of our outstanding borrowings from banks and other financial institutions.

Profit before Tax

As a result of the foregoing, our profit before tax increased significantly by RMB12.3 million, or 43.6%, from RMB28.2 million for the year ended December 31, 2015 to RMB40.5 million for the year ended December 31, 2016.

Income Tax Expense

Our income tax expense decreased by RMB1.1 million, or 73.3%, from RMB1.5 million for the year ended December 31, 2015 to RMB0.4 million for the year ended December 31, 2016. Our effective tax rate decreased from 5.2% for the year ended December 31, 2015 to 1.1% for the year ended December 31, 2016, primarily due to an increase in profit arising from schools not subject to tax.

Profit for the Year

As a result of the foregoing, our profit for the year increased significantly by RMB13.3 million, or 49.8%, from RMB26.7 million in 2015 to RMB40.0 million in 2016, and our net profit margin increased from 18.2% for the year ended December 31, 2015 to 27.3% for the year ended December 31, 2016.

Adjusted Net Profit for the Year

Our adjusted net profit was RMB26.7 million and RMB44.9 million for the years ended December 31, 2015 and 2016, respectively. Our adjusted net profit margin was 18.2% and 30.6% for the years ended December 31, 2015 and 2016, respectively.

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NET CURRENT ASSETS AND LIABILITIES

The following table sets forth details of our current assets, current liabilities and net current assets/liabilities as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)
CURRENT ASSETS				
Prepayments, deposits and other				
receivables	40,533	15,495	21,347	15,842
Trade receivables	888	608	1,179	1,154
Amounts due from related parties .	249,076	48,220	1,314	4
Term deposits	–	–	70,000	70,000
Cash and bank balances	13,612	5,320	39,864	38,747
TOTAL CURRENT ASSETS	304,109	69,643	133,704	125,747
CURRENT LIABILITIES				
Other payables and accruals	52,713	64,468	64,554	59,278
Interest-bearing bank and other				
borrowings	38,100	26,216	34,385	28,000
Deferred revenue	43,403	48,218	57,530	47,760
Amounts due to related parties . . .	44,954	–	–	–
Tax payable	1,431	1,647	1,849	1,944
TOTAL CURRENT LIABILITIES . . .	180,601	140,549	158,318	136,982
NET CURRENT				
ASSETS/(LIABILITIES)	123,508	(70,906)	(24,614)	(11,235)

Trade receivables represent the amounts related to the delayed payment of boarding fees to Saintach Kindergartens and the delayed payment of tuition fees applied by students at Shijiazhuang Institute of Technology. Based on our internal records, as of March 31, 2018, approximately RMB1.1 million, or 90.5% of our outstanding trade receivables as of December 31, 2017 had been settled.

As of December 31, 2015, we had net current assets of RMB123.5 million. As of December 31, 2016 and 2017 and March 31, 2018 we had net current liabilities of RMB70.9 million, RMB24.6 million and RMB11.2 million, respectively.

We had net current liabilities of RMB70.9 million as of December 31, 2016 compared with net current assets of RMB123.5 million as of December 31, 2015, primarily because (i) we settled a significant portion of the outstanding amounts owed to us by Lionful Education through purchase of certain long-term operating assets, including RMB64.0 million for purchase of a parcel of leasehold land and RMB104.9 million for purchase of certain school premises from Lionful Education; and (ii) we declared a dividend of RMB70.0 million to offset the balances owed by Lionful Education. As a result, our current assets decreased significantly by RMB234.5 million, or 77.1%, from RMB304.1 million as of December 31, 2015 to RMB69.6 million as of December 31, 2016, primarily attributable to (i) a decrease of RMB200.9 million in amounts due from related parties mainly due to the reasons indicated above, and (ii) a decrease of RMB25.0 million in prepayments, deposits and other receivables. Our current liabilities decreased by RMB40.1 million, or 22.2% from RMB180.6 million as of December 31, 2015 to RMB140.5 million as of December 31, 2016, primarily attributable to (i) a decrease of RMB45.0 million in amounts due to related parties as we settled all outstanding balances owed to related parties in 2016, and (ii) a decrease of RMB11.9 million in current bank and other borrowings primarily because we settled a portion of our outstanding bank loans and borrowings from banks and other financial institutions.

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Our net current liabilities decreased by RMB46.3 million, or 65.3%, from RMB70.9 million as of December 31, 2016 to RMB24.6 million as of December 31, 2017. Our net current liabilities position improved in 2017, primarily due to (i) an increase of RMB70.0 million in term deposits, (ii) an increase of RMB34.5 million in cash and bank balances as a result of the increased tuition we received for the 2017-2018 school year, and (iii) an increase of RMB5.9 million in prepayments, deposits and other receivables, partially offset by (i) a decrease of RMB46.9 million in amounts due from related parties as we continued to settle our outstanding balances owed by related parties in 2017, (ii) an increase of RMB9.3 million in deferred revenue, and (iii) an increase of RMB8.2 million in current bank and other borrowings.

Our net current liabilities further decreased RMB13.4 million or 54.5% from RMB24.6 million as of December 31, 2017 to RMB11.2 million as of March 31, 2018, primarily as a result of (i) a decrease of RMB9.8 million in deferred revenue due to recognition as revenue of additional amounts of tuition received as the school year progressed, (ii) a decrease of RMB6.4 million in interest-bearing bank and other borrowings due to repayment of other borrowings, and (iii) a decrease of RMB5.3 million in other payables and accruals, partially offset by a decrease of RMB5.5 million in prepayments, deposits and other receivables.

While the net current liabilities as of December 31, 2016 were primarily the result of non-cash settlement of related party balances, we did not, historically, rely on settlement from related parties to maintain liquidity and we had demonstrated working capital sufficiency without settlement from related parties. For risks associated with our net current liabilities position, please see “Risk Factors – Risks Relating to Our Business and Our Industry – We recorded net current liabilities as of December 31, 2016 and 2017 and may record net current liabilities in the future” in this prospectus for further details.

As of the Latest Practicable Date, all the amounts due to and from related parties other than those of a trade nature had been fully settled. We expect to further improve our net current liabilities position by (i) receiving funds generated from our business operations, (ii) receiving the net proceeds from the Global Offering, and (iii) debt restructuring to reduce the amount of short-term loans by using more long-term loans or cash on hand after Listing to meet our funding needs going forward.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables primarily consist of prepayments, deposits, listing expenses, other receivables and current portion of prepaid land lease payments.

The following table sets out the balances of our prepayments, deposits and other receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayments	3,862	4,384	6,909
Deposits	8,348	5,445	7,251
Listing expenses	–	1,022	4,308
Other receivables	28,323 ⁽¹⁾	2,886	1,121
Current portion of prepaid land lease payments	–	1,758	1,758
Total	40,533	15,495	21,347

Note:

(1) Other receivables as of December 31, 2015 consisted primarily of amounts due from a former related party of RMB26 million.

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Prepayments, deposits and other receivables decreased by RMB25.0 million, or 61.7%, from RMB40.5 million as of December 31, 2015 to RMB15.5 million as of December 31, 2016, primarily reflecting (i) a decrease of RMB25.4 million in other receivables mainly due to settlement of amounts due from a former related party, (ii) a decrease of RMB2.9 million in deposits as a result of our repayment of certain bank loans and other borrowing from a financial lease company, partially offset by (i) an increase of RMB1.8 million in current portion of prepaid land lease payments, (ii) an increase of RMB1.0 million in expenses incurred relating to the Listing.

Prepayments, deposits and other receivables increased by RMB5.8 million, or 37.4%, from RMB15.5 million as of December 31, 2016 to RMB21.3 million as of December 31, 2017, primarily reflecting (i) an increase of RMB3.3 million in expenses incurred relating to the Listing, (ii) an increase of RMB2.5 million in prepayments, primarily related to prepaid rental fees in connection with our lease of teaching buildings and student dormitories from Lionful Education in 2017, and (iii) an increase of RMB1.8 million in deposits mainly in relation to a bank loan facility borrowed by Shijiazhuang Institute of Technology, partially offset by a decrease of RMB1.8 million in other receivables primarily due to collection of the remaining receivables from our disposal of the five self-operated Saintach Kindergartens in January 2016.

Term Deposits

We deposited a total of RMB70.0 million in a term deposit account we opened with a licensed rural credit cooperatives union in the PRC in August and September of 2017, including a principal amount of RMB40.0 million with a maturity date of August 2, 2018 and a principal amount of RMB30.0 million with a maturity date of September 27, 2018. These term deposits were principal-guaranteed and bore a fixed interest rate of 2.1% per annum. The balances in such term deposit account can be withdrawn by us prematurely without giving advance notice.

Other Payables and Accruals

Other payables and accruals consist of salary and welfare payables, miscellaneous advances from students, other tax payables, payables for purchases of property, plant and equipment, deposits, interest payables, accrued listing expenses, scholarships, and other payables.

The following table sets out the balances of our other payables and accruals as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salary and welfare payables	32,416	34,441	31,196
Miscellaneous advances from students	6,420	13,561	14,870
Other tax payables	3,112	3,687	3,804
Payables for purchases of property, plant and equipment	1,735	2,911	1,076
Deposits	3,219	2,972	3,001
Interest payables	334	236	169
Accrued listing expenses	–	218	637
Scholarships	135	233	241
Other payables	5,342	6,209	9,271
Current portion of deferred rental obligations . .	–	–	289
Total	52,713	64,468	64,554

Other payables and accruals increased by RMB11.8 million, or 22.4%, from RMB52.7 million as of December 31, 2015 to RMB64.5 million as of December 31, 2016, primarily reflecting (i) an increase of

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RMB7.2 million in miscellaneous advances from students as we began to charge a lump-sum fee for textbooks and teaching materials from newly admitted junior college students at Shijiazhuang Institute of Technology for the entire three-year study period starting in the 2016-2017 school year, (ii) an increase of RMB2.0 million in salary and welfare payables, and (iii) an increase of RMB1.2 million in payables for purchases of property, plant and equipment.

Other payables and accruals remained relatively stable at RMB64.5 million as of December 31, 2016 and RMB64.6 million as of December 31, 2017, primarily reflecting (i) an increase of RMB3.1 million in other payables for purchases of school uniforms, textbooks and teaching materials, and (ii) an increase of RMB1.3 million in miscellaneous advances from students used for purchases of school uniforms, textbooks and teaching materials, partially offset by (i) a decrease of RMB3.2 million in salary and welfare payables, and (ii) a decrease of RMB1.8 million in payables for purchases of property, plant and equipment as we started paying such amounts to the relevant suppliers in 2017 for our purchases made in 2016.

Deferred Revenue

Deferred revenue primarily consists of tuition (including tutoring fees) we charged to students at our schools and tutorial centers, and boarding fees we charged to full-time boarding students at Shijiazhuang Institute of Technology, for which we have received payments, but had yet to recognize as revenue.

The following table sets for the balance of our deferred revenue as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Tuition	38,777	42,738	47,239
Boarding fees	3,722	3,912	3,807
Others	904	1,568	6,484
	<u>43,403</u>	<u>48,218</u>	<u>57,530</u>

Deferred revenue increased by RMB4.8 million, or 11.1%, from RMB43.4 million as of December 31, 2015 to RMB48.2 million as of December 31, 2016, and further increased by RMB9.3 million, or 19.3%, to RMB57.5 million as of December 31, 2017, primarily due to the increased tuition we received for the 2016-2017 and 2017-2018 school years as a result of the increased number of full-time students enrolled at Shijiazhuang Institute of Technology.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to fund our working capital requirements, our purchases of property, plant and equipment and to repay loans and related interest expenses. To date, we have funded our operations principally with cash generated from our operations and bank and other borrowings. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans and other borrowings as well as net proceeds from this Global Offering. Any significant decrease in the student enrollment or our tuition, or a significant decrease in the availability of bank loans or other financing may adversely impact our liquidity. As of December 31, 2015, 2016 and 2017 and March 31, 2018, we had term deposits and cash and cash equivalents of RMB13.6 million, RMB5.3 million, RMB109.9 million and RMB108.7 million, respectively.

We combine the results of our PRC Operating Entities and our access to their cash balance or future earnings through our Structured Contracts with them. Please see “History and Corporate Structure” and “Structured Contracts” in this prospectus for further details.

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Cash Flows

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

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities	24,078	76,276	66,477
Net cash flows from/(used in) investing activities . .	100,140	(7,059)	(40,587)
Net cash flows (used in)/from financing activities . .	(122,082)	(77,509)	8,693
Net increase/(decrease) in cash and cash equivalents	2,136	(8,292)	34,583
Cash and cash equivalents at beginning of the year	11,476	13,612	5,320
Effect of foreign exchange rate exchanges, net	—	—	(39)
Cash and cash equivalents at the end of the year	13,612	5,320	39,864

Cash Flows from Operating Activities

We generate cash from operating activities primarily from tuition and boarding fees, all of which are typically paid in advance before the respective services are rendered.

Net cash flows from operating activities amounted to RMB66.5 million for the year ended December 31, 2017, primarily attributable to (i) RMB61.6 million of cash generated from operating activities before working capital adjustments, (ii) an increase of RMB9.3 million in deferred revenue, and (iii) an increase of RMB1.7 million in other payables and accruals, partially offset by (i) an increase of RMB4.1 million in prepayments, deposits and other receivables primarily due to an increase in our prepaid rental fees to Lionful Education, listing expenses and deposits, and (ii) an increase of RMB1.3 million in amount due from a related party as a result of the service income generated from the provision of college operation services to the west campus of Sifang College for Lionful Education which had not yet been paid to Shijiazhuang Institute of Technology by Lionful Education as of December 31, 2017.

Net cash flows from operating activities amounted to RMB76.3 million for the year ended December 31, 2016, primarily attributable to (i) RMB48.9 million of cash generated from operating activities before working capital adjustments, (ii) a decrease of RMB28.9 million in prepayments, deposits and other receivables due primarily to settlement of outstanding payment owed to us by a former related party, (iii) an increase of RMB11.7 million in other payables and accruals primarily due to an increase in miscellaneous advances from students and salary and welfare payables, and (iv) an increase of RMB4.8 million in deferred revenue resulting from the increased tuition and boarding fees received by Shijiazhuang Institute of Technology prior to the beginning of the 2016-2017 school year, partially offset by an increase of RMB18.0 million in amount due from a related party as a result of the service income generated from the provision of college operation services to the west campus of Sifang College for Lionful Education which had not yet been paid to Shijiazhuang Institute of Technology by Lionful Education as of December 31, 2016.

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Net cash flows from operating activities amounted to RMB24.1 million for the year ended December 31, 2015, primarily attributable to (i) RMB42.5 million of cash generated from operating activities before working capital adjustments, and (ii) an increase of RMB3.7 million in other payables and accruals, offset by (i) an increase of RMB17.9 million in amount due from a related party as a result of the service income generated from the provision of college operation services to the west campus of Sifang College for Lionful Education which had not yet been paid to Shijiazhuang Institute of Technology by Lionful Education as of December 31, 2015, (ii) a decrease of RMB2.6 million in deferred revenue as we adopted a unified tuition policy of charging tuition at all of our Saintach Kindergartens in advance on a monthly basis whereas we previously provided an additional payment option allowing parents to pay tuition in advance for a period of several months in the 2014-2015 school year, and (iii) an increase of RMB1.6 million in prepayments, deposits and other receivables in relation to outstanding amounts owed to us by a former related party.

Cash Flows from Investing Activities

Our cash flows from and used in investing activities were primarily related to loans to and repayments from related parties and purchases of property, plant and equipment.

Net cash flows used in investing activities amounted to RMB40.6 million for the year ended December 31, 2017, primarily attributable to (i) an increase of RMB70.0 million in our term deposits, (ii) payment in respect of our Corporate Reorganization of RMB14.4 million and (iii) RMB6.0 million used for purchases of property, plant and equipment, partially offset by (i) repayment of RMB48.3 million advances from related parties, and (ii) net cash inflow of RMB2.0 million in respect of our disposal of five self-operated Saintach Kindergartens in January 2016.

Net cash flows used in investing activities amounted to RMB7.1 million for the year ended December 31, 2016, primarily attributable to (i) advance payment to related parties of RMB20.3 million, and (ii) RMB5.0 million used for purchases of property, plant and equipment, partially offset by (i) collection of proceeds of RMB14.7 million from disposal of an available-for-sale investment in connection with Hebei Saintach's sales of its equity interest in Shijiazhuang Luquan Rural Credit Cooperatives* (石家莊市鹿泉農村信用合同聯社) ("Luquan RC") to a related party (see note 16 to the Accountants' Report in Appendix I to this prospectus for details), and (ii) net cash inflow of RMB3.8 million in respect of our disposal of five self-operated Saintach Kindergartens.

Net cash flows from investing activities amounted to RMB100.1 million for the year ended December 31, 2015, primarily attributable to (i) repayment of RMB117.0 million loans to us from related parties in connection with the Entrustment Loan and (ii) receipt of RMB13.6 million interest payments, partially offset by (i) the payment we made in an available-for-sale investment of RMB14.7 million in connection with Hebei Saintach's acquisition of a 4.9% equity interest in Luquan RC from Beijing Saintach, a related party (see note 16 to the Accountants' Report in Appendix I to this prospectus for details), and (ii) RMB13.2 million used for purchases of property, plant and equipment, and (iii) advance payments to related parties of RMB2.5 million.

Cash Flows from Financing Activities

Our cash flows used in financing activities were primarily related to the prepayments of borrowings and payment of interest expense.

Net cash flows from financing activities amounted to RMB8.7 million for the year ended December 31, 2017, primarily attributable to (i) RMB30.0 million of bank and other borrowings, and (ii) capital contributions of RMB15.0 million in Zerui Education, partially offset by (i) repayment of bank and other borrowings of RMB29.2 million, (ii) RMB3.2 million of listing expenses paid, and (iii) RMB3.9 million of interest paid.

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Net cash flows used in financing activities amounted to RMB77.5 million for the year ended December 31, 2016, primarily attributable to (i) repayment of advances from related parties of RMB49.9 million, (ii) repayment of bank and other borrowings of RMB42.5 million, and (iii) RMB4.8 million of interest paid.

Net cash flows used in financing activities amounted to RMB122.1 million for the year ended December 31, 2015, primarily attributable to (i) repayment of bank and other borrowings of RMB161.3 million, (ii) repayment of RMB23.3 million advances from related parties, and (iii) RMB21.4 million of interest paid, partially offset by (i) proceeds from new bank and other borrowings of RMB56.4 million, (ii) additional capital contribution of RMB21.0 million, including RMB17.0 million from controlling shareholders of a subsidiary, Hebei Saintach, and (iii) advances from related parties of RMB6.6 million.

Working Capital

We intend to continue to finance our working capital with cash generated from our operations, bank loans and other borrowings, and the net proceeds from the Global Offering. We will closely monitor the level of our working capital, particularly in view of our strategy to continue expanding our school network.

Our future working capital requirements will depend on a number of factors, including, but not limited to, our operating income, the size of our school network, maintaining and upgrading existing school premises, purchasing additional educational facilities and equipment for our schools, and hiring additional teachers and staff. Our Directors are of the view that our available cash balance, the anticipated cash flow from operations, bank loans and other borrowings and the net proceeds from the Global Offering will be sufficient to meet our present and anticipated cash requirements for the next 12 months from the date of this prospectus. Based on the review of financial documents and other due diligence documents, discussion with the Directors and the Directors' confirmation, the Sole Sponsor concurs with the Directors' view.

CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period primarily consisted of (i) additions of property, plant and equipment related to purchases of certain school premises by Shijiazhuang Institute of Technology, (ii) additions of prepaid land lease payments related to purchase of a parcel of leasehold land by Shijiazhuang Institute of Technology, and (iii) intangible assets related to purchase of certain computer software needed for our business operations. Capital expenditures for the years ended December 31, 2015, 2016 and 2017 were RMB12.0 million, RMB175.4 million and RMB4.8 million, respectively.

We incurred a significant amount of capital expenditure in 2016, primarily attributable to a expenditure of RMB168.9 million by Shijiazhuang Institute of Technology with respect to its purchase of operating assets from Lionful Education, including a parcel of leasehold land and certain school premises, pursuant to a sale and purchase agreement entered into between Lionful Education and Shijiazhuang Institute of Technology in December 2016. Please see note 30(d)(2) to the Accountants' Report in Appendix I to this prospectus for further details.

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The following table sets forth our additions of property, plant and equipment, prepaid land lease payments and intangible assets, respectively, for the periods indicated:

	Year ended December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	11,865	111,165	4,389
Prepaid land lease payments	–	64,003	–
Intangible assets	98	248	448
Total	11,963	175,416	4,837

CONTRACTUAL COMMITMENTS

Capital Commitments

Our capital commitments primarily relate to the acquisition of equipment used for our teaching and operational activities. The following table sets forth a summary of our capital commitments as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Contracted but not provided for:			
Equipment	130	–	–

Operating Lease Commitments

During the Track Record Period, we leased certain buildings under operating lease arrangements. Leases for buildings were negotiated for a term of two to 18 years. The table below sets forth our future minimum lease payments under non-cancellable operating leases as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within one year	7,576	4,328	4,521
Within two to five years	22,870	10,237	8,399
Over five years	23,361	6,386	5,196
Total	53,807	20,951	18,116

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INDEBTEDNESS

Bank Loans and Other Borrowings

Our bank loans and other borrowings primarily consisted of short-term working capital loans and long-term borrowings to fund our business operations and for purchases of school equipment. Our bank loans and other borrowings as of December 31, 2015, 2016 and 2017 and March 31, 2018, being the latest practicable date for the purpose of indebtedness statement, were as follows:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Bank loans and other borrowings				
<i>Current</i>				
Bank loans				
– secured	2,400	–	–	–
– unsecured	20,000	–	15,000	28,000
Current portion of long term bank loans				
– secured	2,600	6,000	–	–
– unsecured	6,500	12,000	13,000	–
Current portion of long term other borrowings				
– secured	6,600	6,000	3,800	–
– unsecured	–	2,216	2,585	–
<i>Non-current</i>				
Bank loans				
– secured	3,400	–	–	–
– unsecured	6,500	1,000	–	–
Other borrowings				
– secured	9,800	3,800	–	–
– unsecured	–	3,306	721	–
Total indebtedness	57,800	34,322	35,106	28,000
Carrying amount repayable:				
<i>Bank loans</i>				
Within one year or on demand	31,500	18,000	28,000	28,000
In the second year	9,900	1,000	–	–
	41,400	19,000	28,000	28,000
<i>Other borrowings</i>				
Within one year or on demand	6,600	8,216	6,385	–
In the second year	6,000	6,385	721	–
In the third to fifth years, inclusive . . .	3,800	721	–	–
	16,400	15,322	7,106	–
Total indebtedness	57,800	34,322	35,106	28,000

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We obtained our loans from banks and other financial institutions, including Bohai International and two independent financial lease companies, to supplement our working capital and finance our expenditures. The bank loans and other borrowings as of December 31, 2015, 2016 and 2017 were all denominated in Renminbi. The following table details the interest rate profile of our borrowings as of the dates indicated:

	As of December 31,					
	2015		2016		2017	
	Effective	Amounts	Effective	Amounts	Effective	Amounts
	interest rate		interest rate		interest rate	
	(%)	RMB'000	(%)	RMB'000	(%)	RMB'000
Current						
Bank loans						
– secured	8.56	2,400	–	–	–	–
– unsecured	4.79	20,000	–	–	5.44	15,000
Current portion of long term bank loan						
– secured	9.74	2,600	9.74	6,000	–	–
– unsecured	11.17	6,500	10.93	12,000	10.93	13,000
Current portion of long term other borrowings						
– secured	5.50-6.40	6,600	5.50-6.00	6,000	5.50-6.00	3,800
– unsecured	–	–	8.05	2,216	8.05	2,585
		<u>38,100</u>		<u>26,216</u>		<u>34,385</u>
Non-current						
Bank loans						
– secured	9.74	3,400	–	–	–	–
– unsecured	11.17	6,500	10.93	1,000	–	–
Other borrowings						
– secured	5.50-6.40	9,800	5.50-6.00	3,800	–	–
– unsecured	–	–	8.05	3,306	8.05	721
		<u>19,700</u>		<u>8,106</u>		<u>721</u>
Total		<u><u>57,800</u></u>		<u><u>34,322</u></u>		<u><u>35,106</u></u>

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During the Track Record Period, our Controlling Shareholders and certain of our Group's related parties, provided certain guarantees, pledges and mortgages for the loans we borrowed. Please see note 21 to the Accountants' Report in Appendix I to this prospectus for details of guarantees and/or security provided to our Group in connection with certain of our bank and other borrowings. We have released all of the personal guarantees provided by our Controlling Shareholders as of the Latest Practicable Date.

Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors also confirm that we had no unutilized banking facilities as of the Latest Practicable Date. Our Directors further confirm that our Group did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Contingent Liabilities

Save as disclosed above, as of the Latest Practicable Date, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since December 31, 2017.

LISTING EXPENSES

The listing expenses in connection with the Global Offering (before exercise of the Over-allotment Option) are estimated to be approximately RMB40.0 million which comprise approximately RMB8.4 million underwriting commission and approximately RMB31.6 million other expenses, assuming an Offer Price of HK\$0.96 per Offer Share, being the mid-point of the indicative Offer Price range. During the Track Record Period, we incurred listing expenses of approximately RMB20.8 million, of which approximately RMB16.5 million was charged to our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, while the remaining amount of approximately RMB4.3 million was recorded as deferred listing expenses and will be capitalized and deducted from the share premium upon the completion of the Global Offering. We expect to further incur underwriting commission and other listing expenses of approximately RMB19.2 million (including the underwriting commission of approximately RMB8.4 million) upon the completion of the Global Offering, out of which approximately RMB7.5 million will be charged to the consolidated statement of profit or loss and other comprehensive income, and approximately RMB11.7 million will be deducted from the share premium.

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KEY FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2015	2016	2017
Net profit margin ⁽¹⁾	18.2%	27.3%	26.5%
Adjusted net profit margin ⁽²⁾	18.2%	30.6%	33.4%
Return on assets ⁽³⁾	6.9%	13.2%	15.6%
Adjusted return on assets ⁽⁴⁾	6.9%	14.8%	19.6%
Return on equity ⁽⁵⁾	22.0%	31.1%	33.4%
Adjusted return on equity ⁽⁶⁾	22.0%	34.9%	42.1%
Current ratio ⁽⁷⁾	1.68	0.50	0.84
Debt to equity ratios ⁽⁸⁾	30.4%	25.9%	N/A
Gearing ratio ⁽⁹⁾	39.7%	30.7%	22.3%
Interest coverage ratio ⁽¹⁰⁾	2.93	9.62	12.82

Notes:

- (1) Net profit margin equals our net profit divided by revenue for the year.
- (2) Adjusted net profit margin equals our adjusted net profit divided by revenue for the year. For reconciliation of adjusted net profit, a non-IFRS measure, to its closest IFRS measure, please see “Financial Information – Key Components of Our Results of Operations – Non-IFRS Measure” for details.
- (3) Return on assets equals net profit for the year divided by average total assets as of the beginning and the end of the year.
- (4) Adjusted return on assets equals adjusted net profit for the year divided by average total assets as of the beginning and the end of the year.
- (5) Return on equity equals net profit for the year divided by average total equity as of the beginning and the end of the year.
- (6) Adjusted return on equity equals adjusted net profit for the year divided by average total equity as of the beginning and the end of the year.
- (7) Current ratio equals our current assets divided by current liabilities as of the end of the year.
- (8) Debt to equity ratio equals total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year.
- (9) Gearing ratio equals total interest-bearing bank loans and other borrowings divided by total equity as of the end of the year.
- (10) Interest coverage ratio equals profit before interest and tax of one year divided by finance cost of the same year.

Analysis of Key Financial Ratios

Net Profit Margin

Our net profit margin increased from 18.2% for the year ended December 31, 2015 to 27.3% for the year ended December 31, 2016, primarily due to an increase in gross margin as a result of the increased gross margin of Shijiazhuang Institute of Technology and Saintach Kindergartens.

Our net profit margin decreased slightly from 27.3% for the year ended December 31, 2016 to 26.5% for the year ended December 31, 2017, primarily due to an increase in our segment cost of sales related to Shijiazhuang Institute of Technology and the listing expenses incurred.

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Adjusted Net Profit Margin

Our adjusted net profit margin is affected primarily by the same factors discussed in “– Key Financial Ratios – Analysis of Key Financial Ratios – Net Profit Margin” in this section.

Return on Assets and Return on Equity

Our return on assets ratio increased from 6.9% as of December 31, 2015 to 13.2% as of December 31, 2016, and our return on equity ratio increased from 22.0% as of December 31, 2015 to 31.1% as of December 31, 2016, primarily due to (i) an increase in net profit; and (ii) a decrease in total assets and equity primarily as a result of a dividend of RMB70.0 million declared by Shijiazhuang Institute of Technology.

Our return on assets ratio was 15.6% and return on equity ratio was 33.4% as of December 31, 2017, both of which were higher than the return on assets ratio and return on equity ratio as of December 31, 2016, primarily due to an increase in net profit, which outpaced the increase in average total assets and equity we recorded in 2017.

Adjusted Return on Assets and Adjusted Return on Equity

Our adjusted return on assets and adjusted return on equity are affected primarily by the same factors discussed in “– Key Financial Ratios – Analysis of Key Financial Ratios – Return on Assets and Return on Equity” in this section.

Current Ratio

Our current ratio decreased from 1.68 as of December 31, 2015 to 0.50 as of December 31, 2016, primarily due to a decrease in amounts due from related parties in connection with purchase of operating assets from Lionful Education by Shijiazhuang Institute of Technology, which led to a decrease of our current assets.

Our current ratio increased from 0.50 as of December 31, 2016 to 0.84 as of December 31, 2017, primarily due to an increase in our term deposits and cash and bank balances as a result of the increased tuition we received for the 2017-2018 school year.

Debt to Equity Ratio and Gearing Ratio

Our debt to equity ratio and gearing ratio decreased from 30.4% and 39.7%, respectively, as of December 31, 2015 to 25.9% and 30.7%, respectively, as of December 31, 2016, primarily due to a decrease in bank and other borrowings as a result of our settlement of borrowings matured in 2016.

Debt to equity ratio was not applicable as of December 31, 2017 as we recorded net cash as of December 31, 2017. Our gearing ratio decreased from 30.7% as of December 31, 2016 to 22.3% as of December 31, 2017, primarily reflecting an increase in our total equity attributable to our increased retained profit.

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Interest Coverage Ratio

Our interest coverage ratio was 2.93, 9.62 and 12.82, respectively, for the years ended December 31, 2015, 2016 and 2017. Our interest ratio grew significantly during the Track Record Period, primarily due to a decrease in our finance costs as we settled the Entrustment Loan and our outstanding bank and other borrowings.

RELATED PARTY TRANSACTIONS

The following table sets forth our material related party transactions during the Track Record Period.

The total amounts due from related parties decreased steadily over the Track Record Period. Amounts due from related parties decreased significantly by RMB200.9 million, or 80.7%, from RMB249.1 million as of December 31, 2015 to RMB48.2 million as of December 31, 2016, primarily because (i) we settled a significant portion of the outstanding amounts owed to us by Lionful Education through purchase of certain long-term operating assets, including RMB64.0 million for purchase of a parcel of leasehold land and RMB104.9 million for purchase of certain school premises from Lionful Education; and (ii) we declared a dividend of RMB70.0 million to offset the balances owed by Lionful Education. Amounts due from related parties then decreased significantly by RMB46.9 million, or 97.3%, from RMB48.2 million as of December 31, 2016 to RMB1.3 million as of December 31, 2017, primarily due to settlement of related party balances from Lionful Education and Lionful Investment Holding.

The total amounts due to related parties were RMB45.0 million, nil and nil as of December 31, 2015, 2016 and 2017, respectively. Amounts due to related parties decreased from RMB45.0 million as of December 31, 2015 to nil as of December 31, 2016 primarily due to a decrease in amounts due to Tianjin Ryan Fullcent Factoring Co., Ltd. and University Town Management Company as a result of our repayment to such related parties.

Amounts due from related parties

	As of December 31,		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Non-trade nature			
Lionful Education	96,913	48,136	—
Hebei Anlian	15,000	—	—
Beijing Saintach	51,226	—	—
Shijiazhuang 1+2 United Real Estate Brokerage Co., Ltd. (石家莊壹加貳聯合房地產經紀有限公司)	2,800	—	—
Beijing 1+2 United Real Estate Holding Co., Ltd. (北京壹加貳聯合不動產控股有限公司)	2,000	—	—
Shijiazhuang Saintach Business Consulting Co., Ltd. (石家莊新天際企業管理諮詢有限公司)	1,997	—	—
Tianjin Ruidexin Pawn Co., Ltd. (天津市瑞德信典當有限公司)	299	—	—
Lionful Investment Holding	14	84	—
	<u>170,249</u>	<u>48,220</u>	<u>—</u>
Trade nature			
Lionful Education	78,827	—	1,314
	<u>249,076</u>	<u>48,220</u>	<u>1,314</u>

FINANCIAL INFORMATION

Amounts due to related parties

Non-trade nature

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Tianjin Ryan Fullcent Factoring Co., Ltd. (天津瑞安豐盛商業保理有限公司)	38,378	—	—
University Town Management Company	6,576	—	—
	<u>44,954</u>	<u>—</u>	<u>—</u>

Other than the balances with related parties of a trade nature stated above, the remaining balances were all of a non-trade nature. The Group settled all non-trade balances with its related parties during 2017.

As of December 31, 2017, the remaining balance with Lionful Education represented the receivables of RMB1,314,000 in respect of provision of college operation services to the west campus of Sifang College on behalf of Lionful Education. Our Directors are of the view that such balances were of trade nature and would be settled according to terms mutually agreed by the parties in our normal course of business. Please see note 30(b) to the Accountants' Report in Appendix I to this prospectus for further details.

Except as noted above, all amounts due from or to related parties were unsecured, interest-free and had no fixed term of repayment. As of the Latest Practicable Date, all balances with related parties had been settled.

Please see note 30 to the Accountants' Report in Appendix I to this prospectus for further details of our related party transactions. Our Directors are of the view that our related party transactions during the Track Record Period were conducted on an arm's length basis and do not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation. Accordingly, our Company has no reserve available for distribution to the Shareholders as of December 31, 2017.

FINANCIAL INFORMATION

DIVIDENDS

Our Company has no fixed dividend policy specifying a dividend payout ratio. As our Company is a holding company, our ability to declare and pay dividends will depend on receipt of sufficient funds from our subsidiaries and, particularly, our PRC Operating Entities, which are primarily incorporated in the PRC. Our PRC Operating Entities must comply with their respective constitutional documents and the laws and regulations of the PRC in declaring and paying dividends to us. Pursuant to the laws applicable to the PRC's Foreign Investment Enterprises, Sheng Dao Xiang Cheng must make appropriations from after-tax profit to reserve funds and bonus and welfare funds for workers and staff members prior to payment of dividends. The proportion of reverse funds to be withdrawn shall not be lower than 10% of the total amount of after-tax profits until the balance reaches 50% of the registered capital. The proportion of bonus and welfare funds for workers and staff members to be withdrawn shall be determined by the enterprise itself. Zerui Education, Hebei Saintach and Shijiazhuang Saintach, shall make appropriations of 10% of the profits as the company's statutory common reserve, and may stop drawing the profits until the balance reaches 50% of the company's registered capital. In addition, PRC laws and regulations require private schools where the school sponsors require reasonable returns to make annual appropriations of 25% of after-tax income to its development fund prior to payments of dividend. Such appropriations are required to be used for the construction or maintenance of the school or for the procurement or upgrading of educational equipment. In the case of a private school where the school sponsors do not require reasonable returns, the school is required to make annual appropriations equivalent to no less than 25% of the annual increase of net assets of the school as determined in accordance with generally accepted accounting principles in the PRC.

Although a dividend of RMB70.0 million was declared by Shijiazhuang Institute of Technology during the year ended December 31, 2016 which was settled by offsetting with its balances due from Lionful Education as of December 31, 2016, any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2017 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there is no event since December 31, 2017 which would materially affect the information shown in our consolidated financial statements included in the Accountants' Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our Group's principal financial instruments comprise bank and other borrowings, cash and bank balances and term deposits. Our Group has various other financial assets and liabilities such as amounts due from related parties, trade receivables, deposits and other receivables, amounts due to related parties and other payables and accruals, which arise directly from its operations. The main risks arising from our Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

Interest Rate Risk

Our Group's exposure to the risk of changes in market interest rates relates primarily to our Group's debt obligations with a floating interest rate. As of December 31, 2015, 2016 and 2017, approximately 66.1%, 44.6% and 20.2% of our Group's interest-bearing and other borrowings bore interest at fixed rates.

Credit Risk

It is our Group's policy that all students and cooperative schools who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitoring on an ongoing basis and our Group's exposure to bad debt is not significant.

The credit risk of our Group's other financial assets, which comprise cash and bank balances, term deposits, amounts due from related parties and deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Except for the amounts due from related parties, since our Group only provides services with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty or by service nature. There are no significant concentrations of credit risk regarding the trade receivables of our Group.

Liquidity risk

Our Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. Our Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

FINANCIAL INFORMATION

The maturity profile of our Group's financial liabilities as of the end of each of the Track Record Period, based on the contractual undiscounted payments, was as follows:

As of December 31, 2015					
	On demand	Within one year	One to five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	–	41,926	21,280	63,206	57,800
Amounts due to related parties	44,954	–	–	44,954	44,954
Financial liabilities included in other payables and accruals	–	17,185	–	17,185	17,185
	<u>44,954</u>	<u>59,111</u>	<u>21,280</u>	<u>125,345</u>	<u>119,939</u>
As of December 31, 2016					
	On demand	Within one year	One to five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	–	29,300	8,510	37,810	34,322
Financial liabilities included in other payables and accruals	–	26,340	–	26,340	26,340
	<u>–</u>	<u>55,640</u>	<u>8,510</u>	<u>64,150</u>	<u>60,662</u>
As of December 31, 2017					
	On demand	Within one year	One to five years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	–	35,410	750	36,160	35,106
Financial liabilities included in other payables and accruals	–	29,265	–	29,265	29,265
	<u>–</u>	<u>64,675</u>	<u>750</u>	<u>65,425</u>	<u>64,371</u>

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following table showing our unaudited pro forma adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the HKICPA for illustration purposes only, and is set out below to illustrate the effect of the Global Offering on our consolidated net tangible assets as of December 31, 2017 as if it had taken place on that date.

Our unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as of December 31, 2017 or any future dates. It is prepared based on our consolidated net tangible assets as of December 31, 2017 as set out in the Accountants’ Report in Appendix I to this prospectus, and adjusted as described below:

	Consolidated net tangible assets attributable to owners of our Company as of December 31, 2017⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share⁽³⁾	
	RMB’000	RMB’000	RMB’000	RMB	HK\$⁽⁴⁾
Based on the Offer Price of HK\$0.79 per Share . .	156,481	208,420	364,901	0.30	0.37
Based on the Offer Price of HK\$1.13 per Share . .	156,481	302,640	459,121	0.38	0.47

Notes:

- (1) The consolidated net tangible assets attributable to owners of our Company as of December 31, 2017 is extracted from “Appendix I – Accountants’ Report”, which is based on the audited consolidated equity attributable to owners of the Company as of December 31, 2017 of approximately RMB157,591,000 less intangible assets as of December 31, 2017 of approximately RMB1,110,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$0.79 per Share or HK\$1.13 per Share, after deduction of the underwriting fees and other related expenses payable by our Company and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.00 to RMB0.8092 prevailing on May 4, 2018.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 1,200,000,000 Shares in issue immediately following the completion of the Global Offering and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.8092 prevailing on May 4, 2018.

FINANCIAL INFORMATION

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, valued our property interests at RMB170,066,000 as of March 31, 2018. The text of the valuation report, valuation summary and valuation certificates are set out in Appendix III to this Prospectus.

The table below sets forth the reconciliation of the aggregate amount of net book value of our selective property interests from the consolidated financial information as of December 31, 2017 to the valuation of selective property interests as of March 31, 2018:

	RMB'000
Net book value of selective property interest as of December 31, 2017	162,228
Depreciation (unaudited)	<u>(1,688)</u>
Net book value as of March 31, 2018 (unaudited)	<u>160,540</u>
Valuation surplus (unaudited)	<u>9,526</u>
Valuation of properties as of March 31, 2018 as set out in Appendix III to this document.	<u><u>170,066</u></u>

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see “Business – Our Business Strategies” in this prospectus for details of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$318.0 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated listing expenses payable by us and assuming the initial public Offer Price of HK\$0.96 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. If the Over-allotment Option is exercised in full, we estimate that our additional net proceeds from the offering of these additional Shares will be approximately HK\$50.5 million, after deducting the underwriting commissions and other estimated listing expenses, assuming an Offer Price of HK\$0.96 per Share.

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

- approximately 40%, or HK\$127.2 million, is expected to be used to acquire and rebrand third party kindergartens in order to expand our Saintach Kindergarten network in the Integrated Area by end of 2020. When selecting an acquisition target, we will consider factors that include, among other things, school location, demographics in the area, condition of school facilities, number of existing students, historical performance of the schools, strategic value in expanding into the area, qualifications and quality of the teaching staff, and total acquisition and conversion costs; As of the Latest Practicable Date, we had not identified any specific acquisition targets;
- approximately 20%, or HK\$63.6 million, is expected to be used to expand our Saintach Tutorial Center network in the Integrated Area through acquisition of third party tutorial schools primarily engaged in providing small-group tutoring services by the end of 2020. When selecting an acquisition target, we will consider factors include, among other things, school location, demographics in the area, condition of school facilities, number of existing students, historical performance of the schools, qualifications and quality of the teaching staff, and total acquisition and conversion costs; As of the Latest Practicable Date, we had not identified any specific acquisition targets;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 20%, or HK\$63.6 million, is expected to be used to maintain, renovate and upgrade the facilities, equipment and infrastructure of our schools and tutorial centers and improve student accommodation, campus environment and teaching conditions at Shijiazhuang Institute of Technology. The costs needed to renovate and upgrade our schools and tutorial centers are estimated based on market enquiry and our historical experience dealing with similar expenditures. In particular, we estimated the number of dormitories or classroom to be upgraded and the average cost to upgrade each unit. The estimated cost is also within reasonable market range of industry common practice according to Frost & Sullivan. The following table sets forth the details of our plans to renovate and upgrade our schools and tutorial centers:

	Investment Amount	Renovation/ Upgrade Plan	Timetable	Potential Impact
	(HK\$'000)			
Shijiazhuang Institute of Technology	17,800	Improvement of student accommodation, including whitewashing of dormitories and installation of air-conditioning units	2018-2019	The plan is expected to improve the experience for students living on campus, increase the quality of our education programs and improve overall student satisfaction
	17,800	Improvement of campus environment, including landscaping and active greening of campus grounds	2019	
	8,900	Purchases of additional teaching equipment, including construction of multi-media classrooms	2018	
Subtotal	<u>44,600</u>			
Saintach Kindergartens	7,400	Purchases of additional teaching equipment, including construction of multi-media classrooms	2018-2019	The plan is expected to improve safety and security on our campuses and increase the quality of our kindergarten programs
	5,400	Upgrade of existing security monitoring systems	2018	
Subtotal	<u>12,800</u>			

FUTURE PLANS AND USE OF PROCEEDS

	Investment Amount	Renovation/ Upgrade Plan	Timetable	Potential Impact
	(HK\$'000)			
Saintach Tutorial Centers	3,500	Purchases of additional teaching equipment, including construction of multi-media classrooms	2018	The plan is expected to improve the learning experience for students tutored and improve our operating efficiency using advanced information technology
	2,700	Upgrade of the CRM system	2018	
Subtotal	6,200			
Total	63,600			

The planned renovation and upgrade of our schools and tutorial centers described above will be carried out in stages during non-operating hours of our schools and tutorial centers, and will not involve any significant occupation or renovation of our teaching rooms. We do not therefore expect the renovation will result in any material disruption to the operation of our schools and tutorial centers.

- approximately 10%, or HK\$31.8 million, is expected to be used to establish our presence overseas and obtain experience in operating schools abroad, including approximately HK\$30.8 million for establishment of an officially accredited residential university in the state of California, the United States, and related teacher and administrative staff recruitment, daily operation and management and marketing and promotion expenses, and approximately HK\$1.0 million as a reserve fund to cover any additional expenses arising in connection with the establishment and on-going operation of such university, such as expenses related to maintenance, renovation and upgrading of the facilities, equipment and infrastructure of the university and scholarships used to reward student excellence, as well as any further research and development that may become necessary in relation to establishing and operating the university; and
- approximately 10%, or HK\$31.8 million, is expected to be used to fund our working capital and general corporate purposes.

In the event that the Offer Price is fixed below or above the mid-point of the indicative offer price range, the net proceeds allocated to the above purposes will be adjusted on a pro rata basis. Any additional proceeds received from the exercise of the Over-allotment Option will be allocated to the above purposes on a pro rata basis.

To the extent that our net proceeds are not sufficient to fund the above purposes, we intend to fund the balance through a variety of means, including our internal resource, cash generated from our operations and debt and equity financing. To the extent that the net proceeds are not immediately applied to the above purposes, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We and certain Joint Bookrunners have entered into cornerstone investment agreements with the following investors (the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”), pursuant to which the Cornerstone Investors have agreed to subscribe for the Offer Shares (rounded down to the nearest whole board lot of 3,000 Shares) that may be purchased for an aggregate amount of HK\$140.5 million (the “**Cornerstone Placing**”) at the Offer Price.

Assuming an Offer Price of HK\$0.79 (being the low-end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed for by the Cornerstone Investors would be 177,846,000, representing approximately 49.40% of the Offer Shares and 14.82% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised and approximately 42.96% of the Offer Shares and 14.18% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$0.96 (being the mid-point of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed for by the Cornerstone Investors would be 146,349,000, representing approximately 40.65% of the Offer Shares and 12.20% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised and approximately 35.35% of the Offer Shares and 11.67% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is fully exercised. Assuming an Offer Price of HK\$1.13 (being the high-end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed for by the Cornerstone Investors would be 124,332,000, representing approximately 34.54% of the Offer Shares and 10.36% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised and approximately 30.03% of the Offer Shares and 9.91% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

The Cornerstone Placing will form a part of the International Placing. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid Shares in issue upon completion of the Global Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure and Conditions of the Global Offering – Re-allocation of Offer Shares between the Hong Kong Public Offering and the International Placing”.

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and is independent from each other. Each of the Cornerstone Investors is independent from our Company, the connected persons of the Company and their associates. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering other than pursuant to the relevant cornerstone investment agreements disclosed in this section. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial shareholder of our Company. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* with the fully paid Shares then in issue and to be listed on the Stock Exchange and will be counted towards the public float of our Shares. No special rights have been granted to the Cornerstone Investors as part of the Cornerstone Placing.

CORNERSTONE INVESTORS

OUR CORNERSTONE INVESTORS

A brief description of the Cornerstone Investors is set out below:

MinSheng Royal Asset Management CO., LTD. (“MinSheng Royal”)

Pursuant to the cornerstone investment agreement entered into among our Company, MinSheng Royal, the Sole Global Coordinator and Head & Shoulders Securities Limited, MinSheng Royal has agreed (on behalf of the investment account it manages) to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 3,000 Shares), which may be purchased for an aggregate amount of HK\$50.5 million at the Offer Price.

Assuming an Offer Price of HK\$0.96 (being the mid-point of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed for by MinSheng Royal would be 52,602,000, representing approximately 14.61% of the Offer Shares and 4.38% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised and approximately 12.71% of the Offer Shares and 4.19% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

MinSheng Royal was established on January 24, 2014 with a registered capital of RMB668 million. It is the most important asset management platform of China Minsheng Banking Co., Ltd., whose A shares are listed on the Shanghai Stock Exchange (stock code: 600016) and H shares are listed on the Stock Exchange (stock code: 01988). MinSheng Royal is held as to 24.5% by Asia Financial Cooperation Association (Sanya) (亞洲金融合作聯盟(三亞)), as to 24.5% by Minsheng Real Estate Co., Ltd. (民生置業有限公司) and as to 51.0% by Minsheng Royal Fund Management Co., Ltd. (民生加銀基金管理有限公司), which is in turn held by China Minsheng Banking Co., Ltd. MinSheng Royal is a fund subsidiary approved by the China Securities Regulatory Commission with its headquarters in Beijing and branch offices in Shanghai, Shenzhen and Chengdu. During the four years since its establishment, MinSheng Royal has developed rapidly by adhering to the service conception of “customer-oriented”, integrating resources to conduct management and focusing on industry engaging finance, once with an asset scale of RMB806.8 billion and ranking the first among the industry, realizing accumulated sales volume of over RMB2.7 trillion and gains of approximately RMB200 billion for customers. In 2014, MinSheng Royal initially launched proactive transformation of management, stably met customers’ demand, and obtained consistent recognition from investors in the industry in respect of business upgrading and product innovation. MinSheng Royal is the first fund subsidiary that successfully issued housing provident fund loan asset securitization products and started the listing and transfer business of shares of asset management plans on the Shanghai Stock Exchange. In addition, MinSheng Royal is the only fund subsidiary that is a member of PPP Research Committee. MinSheng Royal agreed to subscribe Offer Shares of such number at Offer Price through a trust manager as qualified domestic institutional investor on its behalf.

Xiamen Chanfund Century Equity Investment, LP (“Xiamen Chanfund”)

Pursuant to the cornerstone investment agreement entered into among our Company, Xiamen Chanfund, the Sole Global Coordinator and Morton Securities Limited, Xiamen Chanfund has agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 3,000 Shares), which may be purchased for an aggregate amount of HK\$50.0 million at the Offer Price.

Assuming an Offer Price of HK\$0.96 (being the mid-point of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed for by Xiamen Chanfund would be 52,083,000, representing approximately 14.47% of the Offer Shares and 4.34% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised and approximately 12.58% of the Offer Shares and 4.15% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

CORNERSTONE INVESTORS

Xiamen Chanfund is a limited partnership established in Xiamen, Fujian Province, the PRC, whose general partner is Xiamen Chanfund Investment Management Co., Ltd. (廈門市誠豐投資管理有限公司) (“Chanfund Management”), which is in turn held as to 90% by Mr. Hao Yu (郝羽) and as to 10% by Mr. Guo Chenfu (郭晨孚), both being Independent Third Parties. Chanfund Management is a professional finance institute registered as a private fund manager in China that focuses on global investment opportunities in education, consumption upgrading and cultural tourism, among other areas through participation in industrial integration, mergers and reorganization, strategic investments, equity investments, capital operation, private placements, and capital management services for listed companies. Mr. Hao Yu is the chairman of the board of directors of Chanfund Management. Mr. Hao has many years of experience in investments and mergers domestically and abroad and participated in many acquisition deals of listed companies. Mr. Guo Chenfu is the general manager of Chanfund Management. Mr. Guo has many years’ working experience in investment banking and participated in many acquisition and placement deals of listed companies. Xiamen Chanfund agreed to subscribe Offer Shares of such number at Offer Price through a trust manager as qualified domestic institutional investor on its behalf.

Green Asia Equity SP (“Green Asia”)

Pursuant to the cornerstone investment agreement entered into among our Company, Green Asia, the Sole Global Coordinator and First Capital Securities Limited, Green Asia has agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 3,000 Shares), which may be purchased for an aggregate amount of HK\$40.0 million at the Offer Price.

Assuming an Offer Price of HK\$0.96 (being the mid-point of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed for by Green Asia would be 41,664,000, representing approximately 11.57% of the Offer Shares and 3.47% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised and approximately 10.06% of the Offer Shares and 3.32% of the Shares in issue immediately following completion of the Global Offering, assuming the Over-allotment Option is fully exercised.

Green Asia Equity SP is a segregated portfolio of Green Asia Restructure Fund SPC, an exempt company incorporated with limited liability and registered as a segregated portfolio company under the Companies Law. The portfolio is managed by a Hong Kong SFC licensed company Long Asia Asset Management (HK) Limited (“Long Asia”). Long Asia is held as to 100% by Long Asia Finance Holdings Ltd, which is held as to 100% by Mr. Chen Qiming (陳麒名). Mr. Chen is a business entrepreneur in the PRC who has extensive investments comprising chemical industrial, biopharmaceutical, real estate and financial services industries. The latter manages various investment funds investing in equities and bonds with total assets under management of HKD3.6 billion.

CONDITIONS PRECEDENT

The subscription by the Cornerstone Investors is subject to, among other things, the satisfaction of the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and become effective and unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the relevant parties) by no later than the respective times and dates specified therein;
- (b) the Offer Price having been agreed upon between us and the Sole Global Coordinator (for themselves and on behalf of the Underwriters);
- (c) neither of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated; and
- (d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering.

RESTRICTION ON DISPOSAL BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed and has undertaken to our Company and the Joint Bookrunners that unless it has obtained the prior written consent of each of our Company and the Joint Bookrunners to do otherwise, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of the Shares subscribed for by it under the relevant cornerstone investment agreements (the “**Relevant Shares**”) or any interest in any company or entity holding (directly or indirectly) any of the Relevant Shares.

After expiration of the Lock-up Period, each of the Cornerstone Investors may dispose of the Shares so subscribed for in certain conditions as set out in the relevant cornerstone investment agreements, such as notifying our Company and the Joint Bookrunners in writing prior to any disposal and using all reasonable endeavors to ensure that any such disposal is strictly in accordance with all applicable laws and regulations including the Listing Rules and the SFO and does not create a disorderly or false market in the Shares. The Cornerstone Investors shall not knowingly dispose of any Shares to another person who engages directly or indirectly in a business which competes or likely to compete with the business of our Company, or to another entity which is a holding company, fellow subsidiary of such holding company or subsidiary of such person, without the prior written consent of our Company and the Joint Bookrunners.

UNDERWRITING

HONG KONG UNDERWRITERS

China Securities (International) Corporate Finance Company Limited
Head & Shoulders Securities Limited
Morton Securities Limited
ABCI Securities Company Limited
First Capital Securities Limited
First Shanghai Securities Limited
Founder Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting arrangements

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Placing is expected to be fully underwritten by the International Underwriters, both on several bases and subject to agreement on pricing of the Offer Shares being entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. The Hong Kong Underwriting Agreement was entered into on May 14, 2018. In connection with the International Placing, our Company expects to enter into the International Underwriting Agreement with, among others, the International Underwriters. The Hong Kong Underwriting Agreement is conditional upon (among other things) the International Underwriting Agreement being entered into, and the Underwriting Agreements are expected to be inter-conditional.

Hong Kong Underwriting Agreement

Under the Hong Kong Underwriting Agreement, we have agreed to offer the Hong Kong Offer Shares to the public in Hong Kong for subscription on and subject to the terms and conditions of this prospectus and the Application Forms.

Pursuant to the Hong Kong Underwriting Agreement, and conditional upon, among other conditions, the Listing Committee granting or agreeing to grant the listing of, and permission to deal in, the Shares, in issue and to be issued as mentioned in this prospectus (subject only to allotment and/or despatch of share certificates for the Offer Shares and such other usual conditions for transaction of this nature) and certain other conditions including the Offer Price being determined by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the entering into of the International Underwriting Agreement and the Price Determination Agreement on or before the Price Determination Date, the Hong Kong Underwriters have agreed to subscribe for, or procure subscribers to subscribe for, the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering on the terms and conditions of the Hong Kong Underwriting Agreement, this prospectus and the Application Forms.

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is entitled to terminate the Hong Kong Underwriting Agreement by giving written notice before 8:00 a.m. (Hong Kong time) on the Listing Date (“Termination Time”) to our Company if any of the following events shall occur prior to the Termination Time:

- (a) there develops, occurs, exists or comes into force any change or development involving a prospective change or development, or any event or series of events, matters or circumstances likely to result in or representing a change or development, or prospective change or development concerning or relating to:
 - (i) any new law or any change in existing law, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the Cayman Islands, the United States, Canada, any member of the European Union, Japan, Singapore or any other relevant jurisdiction (each a “**Relevant Jurisdiction**”); or

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- (ii) any local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock, equity securities and bond markets, money and foreign exchange markets and inter-bank markets), or any monetary or trading settlement system or matters and/or disaster (including, without limitation a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against the currency of any of the United States, the European Union, the United Kingdom or Japan) in or affecting any Relevant Jurisdiction; or
- (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, declaration of a national or international emergency of war, epidemic, pandemic, outbreak of disease, economic sanction, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), riot, public disorder, economic sanctions or acts of God) in or affecting any Relevant Jurisdiction; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or any Relevant Jurisdiction; or
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Tokyo Stock Exchange, Shanghai Stock Exchange or Shenzhen Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Cayman Islands, Hong Kong, Japan or the PRC declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or
- (vi) any adverse change or development involving prospective adverse change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (vii) any Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political or regulatory body of any action against any Director in his or her capacity as such or an announcement by any governmental, political or regulatory body that it intends to take any such action; or
- (viii) a contravention by any member of the Group of a material provision of the Companies Ordinance or Companies (WUMP) Ordinance or Companies Law or the Listing Rules or the laws of such member company's own jurisdiction; or
- (ix) the issue or requirement to issue by the Company of a supplementary prospectus, Application Form, preliminary or final offering circular pursuant to the Companies Ordinance or Companies (WUMP) Ordinance or the Listing Rules; or
- (x) any adverse change or development involving a likely adverse change of any of the risks set out in the section headed "Risk Factors" in this prospectus or the occurrence of any such events therein; or

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- (xi) any demand by creditors for repayment of indebtedness or a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xii) any litigation or claim being threatened or instigated against the Company or any member of the Group or any Director; or
- (xiii) the chairman and chief executive officer of the Company vacating his or her office for any reason,

which in any such case, whether individually or in aggregate and in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters),

- (A) is or may or will be or is likely to be materially adverse to, or prejudicially affect, the general affairs or the business or financial or trading or other condition or prospects of the Company and its subsidiaries taken as a whole; or
 - (B) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable, incapable, inexpedient or inadvisable for any part of Hong Kong Underwriting Agreement (including underwriting), the International Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged or which prevents the processing of applications and/or payments pursuant to the Global Offering or underwriting thereof; or
 - (C) makes or will or is likely to make it impracticable, inexpedient or inadvisable to proceed with or to market the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms, the formal notice or the final offering circular;
- (b) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters as at or after the date of Hong Kong Underwriting Agreement:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice and any notices, announcements, advertisements, communications, or other documents in the agreed form issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become untrue, incorrect or incomplete in any material respect or misleading, or that any forecasts, estimates, expression of opinion, intention or expectation expressed in such documents are not in all material aspects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
 - (iii) any of the warranties given by the warrantors in Hong Kong Underwriting Agreement is (or might when repeated be) being untrue or misleading or inaccurate in any respect; or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of the Company pursuant to the indemnities given by the Company under Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

UNDERWRITING

- (v) any breach of any of the obligations or undertakings of the warrantors under Hong Kong Underwriting Agreement or the International Underwriting Agreement which has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the business or financial conditions or prospects of the Group; or
- (vi) any breach of any of the obligations of any party (other than the Sole Global Coordinator or the Underwriters, if applicable) to any of the Deed of Indemnity, the price determination agreement, the receiving bank agreement, the registrar agreements and the Stock Borrowing Agreement which has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the business or financial conditions or prospects of the Group; or
- (vii) any material adverse change or development involving prospective material adverse change in the assets, liabilities, conditions, earnings, profits, losses, business, properties, results of operations, in the financial or trading position or prospects or performance of the Company and its subsidiaries taken as a whole; or
- (viii) any of the experts named in “Statutory and General Information – G. Other Information – 9. Qualification of Experts” in Appendix V to this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (ix) the Company withdraws this prospectus and the Application Forms or the Global Offering.

Undertakings

Undertakings to the Hong Kong Underwriters

Undertakings by our Company

Under the Hong Kong Underwriting Agreement, our Company has undertaken to and covenanted with the Sole Sponsor, the Sole Global Coordinator, Joint Bookrunners, Joint Lead Managers and the Hong Kong Underwriters that save as pursuant to the Global Offering (including pursuant to the Over-allotment Option) or the Capitalization Issue or issue of options or Shares under the Share Option Scheme, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), our Company will not,

- (i) at any time during the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the date which is six months from the Listing Date (“First Lock-up Period”):
 - (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right, warrant or contract to purchase or subscribe for, lend, purchase any option, right, warrant or contract to sell, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of its share capital or other securities of the Company or any interest therein (including, but not limited to, any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or

UNDERWRITING

- (b) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of such share capital or other securities of the Company or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a), (b) or (c) above,

whether any of the foregoing transactions described in sub-paragraphs (a) to (c) above is to be settled by delivery of share capital or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of shares or such other securities will be completed within the First Lock-up Period); and

- (ii) at any time during the six months commencing on the date which the First Lock-up Period expires (the “Second Lock-up Period”), in the event that our Company enters into any of the foregoing transactions described in paragraphs (i)(a), (b), (c) or agree or contract to, or publicly announce any intention to enter into any such transactions, as the case may be, must take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by our Controlling Shareholders

Under the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken to the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, save as pursuant to the Global Offering, the Over-allotment Option or if applicable, the Stock Borrowing Agreement and the Capitalization Issue without the prior written consent of the Sole Global Coordinator, at any time during the First Lock-up Period, none of the Controlling Shareholders will:

- (i) offer, pledge, charge, mortgage, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein), owned directly by the Controlling Shareholders (including holding as a custodian) or with respect to which any of the Controlling Shareholders has beneficial ownership (collectively the “**Lock-up Shares**”) (the foregoing restriction is expressly agreed to preclude the Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders, respectively. Such prohibited hedging or other transactions would include without limitation any short sale or any sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares); or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of any such capital or securities of the Company or any interest therein; or

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- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) to (iii) above,

whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, in cash or otherwise (whether or not the issue of shares or such other securities will be completed within the aforesaid period).

During the Second Lock-up Period, the Controlling Shareholders will not enter into any of the foregoing transactions in sub-clauses (i), (ii) or (iii) above or agree or contract to, or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any of the Controlling Shareholders will cease to be a “controlling shareholder” (as defined under the Listing Rules) of the Company.

Until the expiry of the Second Lock-up Period, in the event that any of the Controlling Shareholders enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Under Rule 10.08 of the Listing Rules, no further Shares or securities convertible into our equity securities (whether or not a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such an issue of Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances as prescribed by Rule 10.08(1) to (5) of the Listing Rules.

Undertakings by our Controlling Shareholders

Under Rule 10.07(1) of the Listing Rules, our Controlling Shareholders have undertaken to us and to the Stock Exchange that they shall not, and procure that the relevant registered holder(s) shall not:

- (a) during the First Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or our securities in respect of which they are shown by this prospectus to be the beneficial owners; or
- (b) at any time during the Second Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be our controlling shareholders (as defined in the Listing Rules).

UNDERWRITING

In accordance with Note (3) of Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has also undertaken to us and the Stock Exchange that, during the First Lock-up Period and the Second Lock-up Period, he/she/it will:

- (1) when he/she/it pledges or charges any securities of our Company beneficially owned by him/her/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (2) when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform us of such indications.

Under Note (3) to Rule 10.07 (2) of the Listing Rules, we are required to inform the Stock Exchange as soon as practicable after we have been informed of the matters referred to in (1) or (2) above by any of our Controlling Shareholders and disclose such matters by way of an announcement in compliance with the Listing Rules.

International Underwriting Agreement

In connection with the International Placing, it is expected that our Company and our Controlling Shareholders will enter into the International Underwriting Agreement with, among others, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters on or around the Price Determination Date. It is expected that under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally agree to subscribe for or procure subscribers to subscribe for the International Placing Shares to be initially being offered under the International Placing (subject to reallocation) on and subject to the terms of the International Underwriting Agreement. The International Underwriting Agreement is expected to contain force majeure provisions as that contained in the Hong Kong Underwriting Agreement as mentioned above. In the event that the International Underwriting Agreement is not entered into on or around the Price Determination Date, or does not become unconditional or is terminated in accordance with its terms, the Global Offering will not proceed and will lapse.

It is expected that under the International Underwriting Agreement, our Company will grant the Over-allotment Option to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to allot and issue up to an aggregate of 54,000,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the International Placing.

Commission and expenses

Pursuant to the terms of the Hong Kong Underwriting Agreement, our Company has agreed to pay to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and, in the case of the International Underwriting Agreement, our Company will agree to pay to the Sole Global Coordinator (for itself and on behalf of the International Underwriters), an underwriting commission of 2% of the aggregate final Offer Price payable for the Offer Shares (including the Shares to be issued under the Over-allotment Option), out of which they will (as the case may be) pay any sub-underwriting commissions. The Company may, at its sole and absolute discretion, pay an additional incentive fee to the Joint Bookrunners based on a percentage to be determined before the Listing of the aggregate sale

UNDERWRITING

proceeds of the Global Offering. Assuming the Over-allotment Option is not exercised, based on an Offer Price of HK\$0.96 (being the mid-point of the Offer Price range of HK\$0.79 per Offer Share and HK\$1.13 per Offer Share), such underwriting commissions and fees (excluding discretionary incentive fee, if any), together with the Stock Exchange listing fees, the Stock Exchange trading fees, SFC transaction levy, legal and other professional fees, applicable printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$19.2 million in total and will be payable by our Company.

Underwriters' interests in our Company

Save for their respective obligations and interests under the Underwriting Agreements as disclosed above, none of the Underwriters has any shareholding interest in our Company or any member of our Group or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group nor any interest in the Global Offering.

Minimum Public Float

Our Directors and the Sole Global Coordinator will ensure that there will be a minimum 25% of our Company's total number of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules immediately after completion of the Global Offering.

Sole Sponsor's independence

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offering. A total of 360,000,000 Shares will initially be made available under the Global Offering, of which 324,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the International Placing. The remaining 36,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the Hong Kong Public Offering. The number of Shares offered for subscription under the International Placing and the Hong Kong Public Offering will be subject to re-allocation on the basis described below and the number of Shares offered for subscription under the International Placing will also be subject to the exercise of the Over-allotment Option below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have applied for Hong Kong Offer Shares in the Hong Kong Public Offering.

The Hong Kong Public Offering is open to the public as well as to institutional, professional and private investors in Hong Kong. The International Placing involves selective marketing of the International Placing Shares by the International Underwriters to professional, institutional and private investors in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Underwriters are soliciting from prospective investors' indications of interest in acquiring the Offer Shares in the International Placing. Prospective professional, institutional and other investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. The Offer Shares are not available for subscription by existing beneficial owners of the Shares, our Directors, chief executive of our Company or their respective close associates, or any other core connected persons (as defined under the Listing Rules) of our Company or persons who will become core connected persons of our Company immediately upon completion of the Global Offering.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional upon the satisfaction of all of the following conditions, among others:

- (i) the Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Global Offering, the Capitalization Issue and Shares which fall to be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).
- (ii) the Offer Price having been fixed on or around the Price Determination Date; and

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (iii) the entering into of the International Underwriting Agreement between, among others, our Company and the International Underwriters, on or around the Price Determination Date and the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, among other things, the Offer Price be agreed by no later than the Price Determination Date and the Price Determination Agreement has been duly entered into, and if relevant, as a result of the waiver of any conditions given by the Sole Global Coordinator (for itself and on behalf of the Underwriters)), and none of the Underwriting Agreements not being terminated in accordance with its terms or otherwise, in each case on or before the dates and times specified in the Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at www.hkexnews.hk and our website at www.21centuryedu.com on the next business day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in “How to Apply for the Hong Kong Offer Shares” in this prospectus.

In the meantime, your application money will be held in one or more separate bank account(s) with the receiving banker or other bank(s) licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares are expected to be issued on Monday, May 28, 2018 but will only become valid certificates of title at 8:00 a.m. on Tuesday, May 29, 2018 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in “Underwriting – Underwriting Arrangements and Expenses – Grounds for termination” in this prospectus has not been exercised. Investors who trade the Shares prior to the receipt of Share certificates or prior to the Share certificates bearing valid certificates of title do so entirely at their own risk.

THE HONG KONG PUBLIC OFFERING

Our Company is initially offering, at the Offer Price, 36,000,000 Shares (subject to re-allocation as mentioned in “– Re-allocation of Offer Shares between the Hong Kong Public Offering and the International Placing” below in this section), representing 10% of the total number of Shares being initially offered under the Global Offering, for subscription under the Hong Kong Public Offering (before any exercise of the Over-allotment Option). Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering as mentioned below, the number of the Hong Kong Offer Shares will represent 3.0% of our Company’s issued share capital immediately after completion of the Global Offering and the Capitalization Issue without taking into account any Shares which may be issued and allotted upon any exercise of Over-allotment Option and the options which may be granted under the Share Option Scheme.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement. Applicants for the Hong Kong Offer Shares are required on application to pay the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for Hong Kong Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form submitted by him/her that he/she has not applied for nor taken up any International Placing Shares nor participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offering is liable to be rejected.

The total number of the Offer Shares (without taking into account of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing) available under the Hong Kong Public Offering is to be divided into two pools of 18,000,000 Hong Kong Offer Shares for each of pool A and pool B, respectively, for allocation purposes:

- Pool A: The Hong Kong Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and
- Pool B: The Hong Kong Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

For the purpose of this section only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined).

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B but not both. Multiple applications or suspected multiple applications within either pool or between pools and any application made for more than 50% of the Hong Kong Offer Shares initially available under either pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A or pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by each applicant. When there is over subscription under the Hong Kong Public Offering, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares. The results of the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares (with successful applicants' identification document numbers, where appropriate) are expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Monday, May 28, 2018.

Applications under the Hong Kong Public Offering from investors receiving the International Placing Shares under the International Placing will be identified and rejected and investors receiving the Hong Kong Offer Shares under the Hong Kong Public Offering will not be offered the International Placing Shares under the International Placing. Multiple applications or suspected multiple applications or applications for more than 50% of the Hong Kong Offer Shares initially available in either pool A or pool B for public subscription under the Hong Kong Public Offering (i.e. to apply for more than 18,000,000 Hong Kong Offer Shares) are liable to be rejected.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Placing.

The completion of the Hong Kong Public Offering is subject to the conditions as stated in “– Conditions of the Global Offering” above in this section.

THE INTERNATIONAL PLACING

Our Company is initially offering, at the Offer Price, 324,000,000 Shares (subject to re-allocation as mentioned in “– Re-allocation of Offer Shares between the Hong Kong Public Offering and the International Placing” below in this section), representing 90% of the total number of Shares being initially offered under the Global Offering (before any exercise of the Over-Allotment Option), for subscription by way of International Placing. Subject to any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the number of International Placing Shares will represent 27.0% of our Company's issued share capital immediately after completion of the Global Offering and the Capitalization Issue without taking into account any Shares which may be issued and allotted upon any exercise of the Over-allotment Option and the options which have been or may be granted under the Share Option Scheme.

The International Placing will be managed by the Sole Global Coordinator and is expected to be fully underwritten by the International Underwriters. Pursuant to the International Placing, it is expected that the International Underwriters or any selling agents which they nominate will, on behalf of our Company, conditionally place the International Placing Shares at the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. It is expected that the International Underwriting Agreement will be executed on or around the Price Determination Date.

Allocation of the International Placing Shares to professional, institutional and private investors pursuant to the International Placing will be effected in accordance with the book-building process and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after Listing. Such allocation is intended to result in a distribution of the International Placing Shares on the basis which would lead to the establishment of a solid broad shareholder base to the benefit of our Company and our Shareholders taken as a whole. Investors to whom International Placing Shares are offered are required to undertake not to apply for the Hong Kong Offer Shares under the Hong Kong Public Offering. The level of indication of interest in the International Placing is expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Monday, May 28, 2018. The completion of the International Placing is subject to the conditions stated in “– Conditions of the Global Offering” above in this section.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

RE-ALLOCATION OF OFFER SHARES BETWEEN THE HONG KONG PUBLIC OFFERING AND THE INTERNATIONAL PLACING

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offering is subject to re-allocation. If the International Placing is fully subscribed or oversubscribed and the number of Offer Shares validly applied for in the Hong Kong Public Offering:

- (a) represents 15 times or more but less than 50 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, then 72,000,000 Shares will be re-allocated to the Hong Kong Public Offering from the International Placing, so that an aggregate of 108,000,000 Shares will be available under the Hong Kong Public Offering, representing 30% of the Offer Shares initially available under the Global Offering;
- (b) represents 50 times or more but less than 100 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, then 108,000,000 Shares will be re-allocated to the Hong Kong Public Offering from the International Placing, so that an aggregate of 144,000,000 Shares will be available under the Hong Kong Public Offering, representing 40% of the Offer Shares initially available under the Global Offering;
- (c) represents 100 times or more of the number of Shares initially available for subscription under the Hong Kong Public Offering, then 144,000,000 Shares will be re-allocated to the Hong Kong Public Offering from the International Placing, so that an aggregate of 180,000,000 Shares will be available under the Hong Kong Public Offering, representing 50% of the Offer Shares initially available under the Global Offering; and
- (d) in each of the above cases, the number of Shares allocated to the International Placing will be correspondingly reduced, subject to the exercise of the Over-allotment Option.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the absolute discretion to re-allocate all or any of the unsubscribed Hong Kong Offer Shares originally included in the Hong Kong Public Offering to the International Placing in such number as it deems appropriate to satisfy the demand under the International Placing. In addition, the Sole Global Coordinator may in its sole discretion reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In particular, if (i) the International Placing is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed; or (ii) the International Placing is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, the Sole Global Coordinator has the authority to re-allocate International Placing Shares originally included in the International Placing to the Hong Kong Public Offering in such number as it deems appropriate, provided that in accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, (i) the number of International Placing Shares re-allocated to the Hong Kong Public Offering should not exceed 36,000,000 Shares, representing 10% of the Offer Shares initially available under the Global Offering, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 72,000,000 Shares; and (ii) the final Offer Price should be fixed at the bottom end of the indicative Offer Price range (i.e. HK\$0.79 per Offer Share) stated in this prospectus. Details of any re-allocation of Offer Shares between the Hong Kong Public Offering and the International Placing will be disclosed in the results announcement, which is expected to be made on Monday, May 28, 2018.

In all cases, the additional Shares re-allocated to the Hong Kong Public Offering will be allocated, if applicable, equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

It is expected that under the International Underwriting Agreement, our Company will grant the Over-allotment Option to the International Underwriters, exercisable at the sole discretion of the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to allot and issue up to an aggregate of 54,000,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the International Placing. The additional Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the International Placing and/or to satisfy the Sole Global Coordinator's obligation to return Shares borrowed under the Stock Borrowing Agreement. The Sole Global Coordinator may also cover any over-allocations under the International Placing through the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 30% of our Company's enlarged issued share capital immediately after completion of the Global Offering and the Capitalization Issue (without taking into account any shares which may fall to be issued upon the exercise of any options to be granted under the Share Option Scheme). If the Over-allotment Option is exercised in full, the Offer Shares will represent about 33.01% of the enlarged issued share capital of our Company immediately after completion of the Global Offering, the Capitalization Issue and the exercise of the Over-allotment Option in full (without taking into account any shares which may fall to be issued upon the exercise of any options to be granted under the Share Option Scheme). In the event that the Over-allotment Option is exercised, an announcement will be made in English in the South China Morning Post and in Chinese in the Hong Kong Economic Times.

Based on an Offer Price of HK\$0.96 per Offer Share (being the mid-point of the Offer Price range between HK\$0.79 per Offer Share and HK\$1.13 per Offer Share), the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be about HK\$318.0 million. If the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of about HK\$50.5 million, after deducting commissions and expenses attributable to the exercise of the Over-allotment Option.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, which is currently scheduled on Friday, May 18, 2018, or such later date as the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company may agree but in any event no later than on Friday, May 25, 2018. **If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by Friday, May 25, 2018, the Global Offering will not become unconditional and will lapse.**

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$1.13 per Offer Share and is expected to be not less than HK\$0.79 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interests expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below as stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at www.21centuryedu.com and the website of the Stock Exchange at www.hkexnews.hk notice of such a change. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In addition, the Company is required to (i) issue a supplemental prospectus informing potential investors of, among other things, the changes to the Global Offering, including the change in the Offer Price range and offer period and the impact of such change on the sufficiency of working capital and use of proceeds; and (ii) extend the offer period to allow potential investors to have sufficient time to consider and require them to positively confirm their applications for the Hong Kong Offer Shares in light of the change in the Offer Price range, or their applications will be rejected. In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of a reduction in the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

We expect to announce the final Offer Price, the level of indication of interests under the International Placing and the basis of allotment of the Hong Kong Offer Shares under the Hong Kong Public Offering on or before Monday, May 28, 2018 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at www.21centuryedu.com and the website of the Stock Exchange at www.hkexnews.hk.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving electronic application instructions to HKSCC via CCASS or by applying through **HK eIPO White Form** service which will be made available as described in "How to Apply for the Hong Kong Offer Shares – 11. Publication of Results" in this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.13 per Offer Share and is expected to be not less than HK\$0.79 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$1.13 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK\$3,424.16 per board lot of 3,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK\$1.13 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in "How to Apply for the Hong Kong Offer Shares" in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

STABILIZATION ACTION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong, activities aimed at reducing the market price are prohibited and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as stabilizing manager, or its affiliates or any person acting for it, (for itself and on behalf of the Underwriters and not as agent for our Company) may, to the extent permitted any applicable laws, over-allocate Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Any market purchase of the Shares may be effected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to conduct any such stabilization action which, if commenced, may be discontinued at any time at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 54,000,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilization action cannot be taken to support the price of the Offer Shares for longer than the stabilizing period which begins on the Listing Date and ends on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering (the “Stabilization Period”). The Stabilization Period is expected to expire on Sunday, June 17, 2018 and that after this date, when no further stabilizing action may be taken, demand for our Shares, and therefore its price, could fall.

During the Stabilization Period, the Sole Global Coordinator as stabilizing manager or its affiliates, or any person acting for it, may purchase or agree to purchase, or offer, the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilizing) Rules made under the SFO. In connection with any such stabilization actions as described above, the Stabilizing Manager, its affiliates, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired by it in the course of any stabilization transactions in order to liquidate any position that has been established by such action.

The Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the Shares. The size of the long position, and the time period for which the Stabilizing Manager will maintain such a position during the Stabilization Period, are at the sole discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the Shares cannot be assured to stay at or above its Offer Price either during or after the Stabilization Period by the taking of any stabilizing action during the Stabilization Period. Stabilization bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In order to facilitate the settlement of over-allocations, the Stabilizing Manager, or its affiliates or any reason for it may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage in a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In this connection, the Stabilizing Manager will enter into the Stock Borrowing Agreement with Sainange Holdings whereby the Stabilizing Manager may borrow up to 54,000,000 Shares from Sainange Holdings, equivalent to the maximum number of additional Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, provided the following requirements under Rule 10.07(3) of the Listing Rules are complied with:

- the Stock Borrowing Agreement will only be effected by the Stabilizing Manager for covering any short position arising from over-allocations under the International Placing prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Sainange Holdings will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- unless otherwise agreed by parties, the same number of Shares so borrowed must be returned to Sainange Holdings or its nominees on or before the third business day, a day that is not a Saturday, Sunday or public holiday in Hong Kong, following the earlier of (i) the last day on the Over-allotment Option may be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;
- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Sainange Holdings in relation to the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, May 29, 2018, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, May 29, 2018. The Shares will be traded in board lots of 3,000 Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- a Director or chief executive of our Company and/or any of its subsidiaries;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- a close associate (as defined in the Listing Rules) of any of the above; or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **HK eIPO White Form** service at www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, May 15, 2018 until 12:00 noon on Friday, May 18, 2018 from:

- (i) the following offices of the Hong Kong Underwriters:

China Securities (International) Corporate Finance Company Limited
18th Floor, Two Exchange Square, Central, Hong Kong

Head & Shoulders Securities Limited
Room 2511, 25/F, Cosco Tower, 183 Queen's Road Central, Hong Kong

Morton Securities Limited
1804-5, 18/F, Allied Kajima Building, 138 Gloucester Road, Wan Chai, Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower, 50 Connaught Road Central, Hong Kong

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

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

Founder Securities (Hong Kong) Limited
Suites 1710-1719, Jardine House, 1 Connaught Place, Central, Hong Kong

- (ii) any of the designated branches of the receiving bank:

Bank of China (Hong Kong) Limited

	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road, Central, Hong Kong
	Causeway Bay Branch	505 Hennessy Road, Causeway Bay, Hong Kong
	Gilman Street Branch	136 Des Voeux Road Central, Hong Kong
Kowloon	Mong Kok Branch	589 Nathan Road, Mong Kok, Kowloon
New Territories	East Point City Branch	Shop 101, East Point City, Tseung Kwan O, New Territories

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, May 15, 2018 until 12:00 noon on Friday, May 18, 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – CHINA 21ST CENTURY EDUCATION PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, May 15, 2018 – 9:00 a.m. to 5:00 p.m.
Wednesday, May 16, 2018 – 9:00 a.m. to 5:00 p.m.
Thursday, May 17, 2018 – 9:00 a.m. to 5:00 p.m.
Friday, May 18, 2018 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, May 18, 2018, the last application day or such later time as described in "– 10. Effect of Bad Weather on the Opening of the Applications Lists" below in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- (ii) agree to comply with the Companies Law, the Companies (WUMP) Ordinance and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (viii) agree to disclose to our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, the Hong Kong Branch Share Registrar, the receiving bank, and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number of such Shares allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (a) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

YELLOW Application Form or by giving **electronic application instructions** to HKSCC; and
(b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria set out in “– 2. Who Can Apply” above in this section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, May 15, 2018 until 11:30 a.m. on Friday, May 18, 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, May 18, 2018 or such later time under “– 10. Effects of Bad Weather on the Opening of the Applications Lists” below in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a copy of this prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number of such Shares allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
 - declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- confirm that you understand that our Company, the Directors, the Sole Sponsor and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, our Hong Kong Branch Share Registrar, receiving bank and/or its respective advisors and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 3,000 Hong Kong Offer Shares. Instructions for more than 3,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, May 15, 2018 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, May 16, 2018 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, May 17, 2018 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, May 18, 2018 – 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, May 15, 2018 until 12:00 noon on Friday, May 18, 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, May 18, 2018, the last application day or such later time as described in “– 10. Effect of Bad Weather on the Opening of the Application Lists” below in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, May 18, 2018.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“*Unlisted company*” means a company with no equity securities listed on the Stock Exchange.

“*Statutory control*” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** or **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 3,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 3,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

For further details of the Offer Price, please see “Structure and Conditions of the Global Offering – Determining the Offer Price” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, May 18, 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, May 18, 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, May 28, 2018 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on our Company’s website at www.21centuryedu.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.21centuryedu.com and the Stock Exchange’s website at www.hkexnews.hk by no later than Monday, May 28, 2018;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, May 28, 2018 to 12:00 midnight on Sunday, June 3, 2018;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, May 28, 2018 to Thursday, May 31, 2018;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, May 28, 2018 to Wednesday, May 30, 2018 at all designated branches of the receiving bank.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in “Structure and Conditions of the Global Offering” in this prospectus.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.13 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure and Conditions of the Global Offering – Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Monday, May 28, 2018.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Monday, May 28, 2018. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, May 29, 2018 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, May 28, 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Monday, May 28, 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, May 28, 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, May 28, 2018, or in the event of a contingency, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- *If you apply through a designated CCASS Participant (other than a CCASS investor participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "– 11. Publication of Results" above in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, May 28, 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, May 28, 2018, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, May 28, 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, May 28, 2018, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “11. Publication of Results” above in this section on Monday, May 28, 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. Monday, May 28, 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Monday, May 28, 2018. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, May 28, 2018.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountant of the Company, Ernst & Young, Certified Public Accountants, Hong Kong. As described in Appendix VI headed "Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus, a copy of the accountants' report is available for inspection.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors

China 21st Century Education Group Limited

China Securities (International) Corporate Finance Company Limited

Dear Sirs,

We report on the historical financial information of China 21st Century Education Group Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-62, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2015, 2016 and 2017 (the "Relevant Periods"), and the consolidated statements of financial position of the Group as at 31 December 2015, 2016 and 2017 and the statements of financial position of the Company as at 31 December 2016 and 2017 and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information sets out on pages I-3 to I-62 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 15 May 2018 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants

consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group as at 31 December 2015, 2016 and 2017 and of the financial position of the Company as at 31 December 2016 and 2017 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong
15 May 2018

I. HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young, in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
REVENUE	5	147,294	146,508	169,741
Cost of sales		(87,353)	(78,971)	(93,362)
Gross profit		59,941	67,537	76,379
Other income and gains	5	12,103	9,417	10,097
Selling and distribution expenses		(7,693)	(7,988)	(8,005)
Administrative expenses		(21,083)	(23,542)	(28,767)
Other expenses		(458)	(270)	(438)
Finance costs	7	(14,600)	(4,693)	(3,843)
PROFIT BEFORE TAX	6	28,210	40,461	45,423
Income tax expense	10	(1,474)	(443)	(385)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		26,736	40,018	45,038
Attributable to:				
Owners of the Company		26,832	39,595	45,038
Non-controlling interests		(96)	423	–
		26,736	40,018	45,038

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
	Notes	2015	2016	2017
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	13	27,249	128,929	122,256
Prepaid land lease payments	14	–	62,099	60,341
Intangible assets	15	832	873	1,110
Available-for-sale investment	16	14,731	–	–
Total non-current assets		42,812	191,901	183,707
CURRENT ASSETS				
Prepayments, deposits and other receivables . .	17	40,533	15,495	21,347
Trade receivables	18	888	608	1,179
Amounts due from related parties	30(b)	249,076	48,220	1,314
Term deposits	19	–	–	70,000
Cash and bank balances	19	13,612	5,320	39,864
Total current assets		304,109	69,643	133,704
CURRENT LIABILITIES				
Other payables and accruals	20	52,713	64,468	64,554
Interest-bearing bank and other borrowings . .	21	38,100	26,216	34,385
Deferred revenue	22	43,403	48,218	57,530
Amounts due to related parties	30(b)	44,954	–	–
Tax payable		1,431	1,647	1,849
Total current liabilities		180,601	140,549	158,318
NET CURRENT ASSETS/(LIABILITIES)		123,508	(70,906)	(24,614)
TOTAL ASSETS LESS CURRENT				
LIABILITIES		166,320	120,995	159,093
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings . .	21	19,700	8,106	721
Deferred rental obligations	23	1,211	962	781
Total non-current liabilities		20,911	9,068	1,502
Net assets		145,409	111,927	157,591
EQUITY				
Equity attributable to owners of the Company				
Share capital	24	–	–	–
Reserves	25	145,057	111,927	157,591
		145,057	111,927	157,591
Non-controlling interests		352	–	–
Total equity		145,409	111,927	157,591

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Retained profits*	Other reserve*	Total	Non-controlling interests	Total
	RMB'000 (note 24)	RMB'000 (note 25)	RMB'000 (note 25)	RMB'000	RMB'000	RMB'000 (note 25)	RMB'000	RMB'000	RMB'000
At 1 January 2015	-	38,000	34,762	-	24,911	-	97,673	-	97,673
Profit and total comprehensive income for the year	-	-	-	-	26,832	-	26,832	(96)	26,736
Transfer from retained profits	-	-	7,517	-	(7,517)	-	-	-	-
Increase in paid-up capital of a subsidiary	-	17,000	-	-	-	-	17,000	-	17,000
Capital contribution from non-controlling shareholders to a subsidiary (note 25)	-	-	-	-	-	3,552	3,552	448	4,000
At 31 December 2015 and 1 January 2016	-	55,000	42,279	-	44,226	3,552	145,057	352	145,409
Profit and total comprehensive income for the year	-	-	-	-	39,595	-	39,595	423	40,018
Transfer from retained profits	-	-	10,131	-	(10,131)	-	-	-	-
Increase in paid-up capital of a subsidiary	-	500	-	-	-	-	500	-	500
Withdrawal of paid-up capital from a subsidiary (note 25)	-	(1,304)	-	-	-	(1,921)	(3,225)	(775)	(4,000)
Dividend declared (note 11)	-	-	-	-	(70,000)	-	(70,000)	-	(70,000)
At 31 December 2016 and 1 January 2017	-	54,196	52,410	-	3,690	1,631	111,927	-	111,927
Profit and total comprehensive income for the year	-	-	-	-	45,038	-	45,038	-	45,038
Transfer from retained profits	-	-	11,290	-	(11,290)	-	-	-	-
The Reorganisation (note 25)	-	600	-	-	-	-	600	-	600
Exchange differences related to foreign operations	-	-	-	26	-	-	26	-	26
At 31 December 2017	-	54,796	63,700	26	37,438	1,631	157,591	-	157,591

* These reserve accounts comprise the reserves of RMB145,057,000, RMB111,927,000, and RMB157,591,000 in the consolidated statements of financial position as at 31 December 2015, 2016 and 2017, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
	Notes	2015	2016	2017
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		28,210	40,461	45,423
Adjustments for:				
Interest income	5	(7,599)	(73)	(648)
Finance costs	7	14,600	4,693	3,843
Depreciation	6	6,862	6,045	10,813
Amortisation of intangible assets	6	171	207	211
Recognition of prepaid land lease payments . . .	6	–	146	1,758
Loss on disposal of items of property, plant and equipment	6	305	102	249
Gain on disposal of operating assets of certain kindergartens	5	–	(2,730)	–
		42,549	48,851	61,649
(Increase)/decrease in prepayments, deposits and other receivables		(1,566)	28,943	(4,051)
(Increase)/decrease in trade receivables		(231)	280	(571)
Increase in amount due from a related party		(17,888)	(17,970)	(1,314)
Increase in other payables and accruals		3,712	11,730	1,683
(Decrease)/increase in deferred revenue		(2,611)	4,791	9,312
Increase/(decrease) in deferred rental obligations .		249	(195)	(181)
Cash generated from operations		24,214	76,430	66,527
Interest received		43	73	133
Corporate income tax paid		(179)	(227)	(183)
Net cash flows from operating activities		24,078	76,276	66,477

		Year ended 31 December		
	Notes	2015	2016	2017
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Advances to related parties		(2,513)	(20,299)	–
Repayment of advances to related parties		–	–	48,285
Payment in respect of the Reorganisation	25	–	–	(14,400)
Repayment of loans to related parties		116,960	–	–
Interest received		13,644	–	–
Proceeds from disposal of items of property, plant and equipment		115	5	–
Purchases of items of property, plant and equipment		(13,237)	(5,048)	(6,024)
Additions to intangible assets	15	(98)	(248)	(448)
Proceeds from disposal of operating assets of certain kindergartens	29(i)	–	3,800	2,000
Addition of an available-for-sale investment	16	(14,731)	–	–
Proceeds from disposal of an available-for-sale investment	16	–	14,731	–
Increase in non-pledged term deposits with original maturity of more than three months		–	–	(70,000)
Net cash flows from/(used in) investing activities		100,140	(7,059)	(40,587)
CASH FLOWS FROM FINANCING ACTIVITIES				
Advances from related parties		6,576	4,920	–
Repayment of advances from related parties		(23,309)	(49,874)	–
New bank and other borrowings		56,400	19,000	30,000
Repayment of bank and other borrowings		(161,340)	(42,478)	(29,216)
Additional capital contribution		21,000	500	15,000
Withdrawal of contributed capital by non-controlling shareholders of a subsidiary		–	(4,000)	–
Listing expenses paid		–	(786)	(3,181)
Interest paid		(21,409)	(4,791)	(3,910)
Net cash flows (used in)/from financing activities		(122,082)	(77,509)	8,693
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		2,136	(8,292)	34,583
Cash and cash equivalents at beginning of year		11,476	13,612	5,320
Effect of foreign exchange rate changes, net		–	–	(39)
CASH AND CASH EQUIVALENTS AT END OF YEAR		13,612	5,320	39,864
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	19	13,612	5,320	39,864

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	As at 31 December	
		2016	2017
		RMB'000	RMB'000
NON-CURRENT ASSET			
Investment in a subsidiary	1	1	1
CURRENT ASSET			
Cash and bank balances		–	208
CURRENT LIABILITY			
Amounts due to related parties	30(b)	10	916
NET CURRENT LIABILITIES		(10)	(708)
		(9)	(707)
DEFICIENCY IN ASSETS			
Share capital	24	–	–
Accumulated losses		(9)	(707)
		(9)	(707)

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 20 September 2016. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were engaged in the provision of education services and the related management services (collectively the "Listing Businesses") in the People's Republic of China (the "PRC").

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the section headed "History and Corporate Structure" in the Prospectus. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Sainange Investment Limited (新安投資有限公司) (i)	British Virgin Islands ("BVI") 19 October 2016	US dollars (US\$)100	100	–	Investment holding
21st Century Education (HK) Investment Limited (香港21世紀教育投資有限 公司) (ii)	Hong Kong 1 November 2016	HK\$10,000	–	100	Investment holding
Saintach Education (HK) Investment Limited (香港新天際教育投資有限 公司) (ii)	Hong Kong 3 November 2016	HK\$10,000	–	100	Dormant
河北晟道象成教育科技有限 公司 Hebei Sheng Dao Xiang Cheng Education and Technology Co., Ltd.* ("Sheng Dao Xiang Cheng") (iii)	PRC/ Mainland China 14 December 2016	US\$500,000	–	100	Provision of technical and management consultancy service

APPENDIX I

ACCOUNTANTS' REPORT

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
河北澤瑞教育科技有限公司 Hebei Zerui Education Technology Co., Ltd.* ("Zerui Education") (iv)	PRC/ Mainland China 12 July 2017	RMB 40,000,000	–	100	Investment holding
石家莊理工職業學院 Shijiazhuang Institute of Technology* (v)	PRC/ Mainland China 1 July 2003	RMB5,000,000	–	100	Provision of university education service and college management service
河北新天際教育科技有限公司 Hebei Saintach Education and Technology Co., Ltd.* ("Hebei Saintach") (vi)	PRC/ Mainland China 17 September 2002	RMB 10,000,000	–	100	Investment holding
石家莊市橋西區新天際藍水 晶幼兒園 Shijiazhuang Qiaoxi District Blue Crystal Saintach Kindergarten* ("Blue Crystal") (vii)	PRC/ Mainland China 4 January 2011	RMB900,000	–	100	Provision of kindergarten education service
正定縣新天際幼兒園 Zhengding County Saintach Kindergarten* ("Zhengding") (vii)	PRC/ Mainland China 28 September 2012	RMB500,000	–	100	Provision of kindergarten education service
石家莊市鹿泉區新天際福康 幼兒園 Shijiazhuang Luquan District Fukang Saintach Kindergarten* ("Fukang") (vii)	PRC/ Mainland China 12 October 2012	RMB500,000	–	100	Provision of kindergarten education service
石家莊市長安區新天際清暉 幼兒園 Shijiazhuang Chang'an District Qinghui Saintach Kindergarten* ("Qinghui") (vii)	PRC/ Mainland China 29 March 2013	RMB500,000	–	100	Provision of kindergarten education service
石家莊高新技術產業開發區 新天際天山幼兒園 Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten* ("Tianshan") (vii)	PRC/ Mainland China 20 May 2013	RMB500,000	–	100	Provision of kindergarten education service

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
石家莊市長安區新天際建華 幼兒園 Shijiazhuang Chang'an District Jianhua Saintach Kindergarten* ("Jianhua") (viii)	PRC/ Mainland China 7 March 2014	RMB100,000	–	100	Provision of kindergarten education service
石家莊市橋西區新天際麗都 幼兒園 Shijiazhuang Qiaoxi District Lidu Saintach Kindergarten* ("Lidu") (ix)	PRC/ Mainland China 29 June 2015	RMB500,000	–	100	Provision of kindergarten education service
正定縣新天際福門裡幼兒園 Zhengding County Fumenli Saintach Kindergarten* ("Fumenli") (ix)	PRC/ Mainland China 29 April 2015	RMB500,000	–	100	Provision of kindergarten education service
石家莊新天際教育科技有限 公司 Shijiazhuang Saintach Education and Technology Co., Ltd.* ("Shijiazhuang Saintach") (vi)	PRC/ Mainland China 13 July 2011	RMB3,000,000	–	100	Investment holding and provision of after-school tutoring service
石家莊市橋西區智城培訓學 校 Shijiazhuang Qiaoxi District Zhicheng Tutorial School* ("Zhicheng") (x)	PRC/ Mainland China 26 February 2009	RMB1,000,000	–	100	Provision of after-school tutoring service
石家莊市長安區新天際培訓 學校 Shijiazhuang Chang'an District Saintach Tutorial School* ("Chang'an") (x)	PRC/ Mainland China 20 April 2010	RMB1,000,000	–	100	Provision of after-school tutoring service
石家莊市橋西區雙語文化培 訓學校 Shijiazhuang Qiaoxi District Bilingual Culture Tutorial School* ("Qiaoxi") (x)	PRC/ Mainland China 26 November 2013	RMB500,000	–	100	Provision of after-school tutoring service
石家莊市裕華區東崗路新天 際培訓學校 Shijiazhuang Yuhua District Donggang Road Saintach Tutorial School* ("Donggang") (xi)	PRC/ Mainland China 1 February 2016	RMB1,000,000	–	100	Provision of after-school tutoring service

APPENDIX I

ACCOUNTANTS' REPORT

Company name	Place and date of incorporation/ establishment and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
石家莊市新華區慧軒教育培訓學校 Shijiazhuang Xinhua District Huixuan Education Tutorial School* (“Huixuan”) (xi)	PRC/ Mainland China 3 August 2016	RMB300,000	–	100	Provision of after-school tutoring service
石家莊市高新區新天際培訓學校 Shijiazhuang High-tech Industrial Development Zone Saintach Tutorial School* (“Gaoxin”) (xii)	PRC/ Mainland China 19 December 2016	RMB500,000	–	100	Provision of after-school tutoring service

Notes:

- (i) No audited financial statements have been prepared as this entity was incorporated in a jurisdiction which does not have any statutory audit requirements.
- (ii) No audited financial statements have been prepared as these entities were newly incorporated in November 2016.
- (iii) No audited financial statements for the year ended 31 December 2016 have been prepared as this entity was newly established in 2016. The statutory financial statements for the year ended 31 December 2017, prepared in accordance with PRC Generally Accepted Accounting Principles (“PRC GAAP”), were audited by 石家莊得澤會計師事務所(普通合夥) (“Shijiazhuang Deze Certified Public Accountants”), certified public accountants registered in the PRC.
- (iv) No audited financial statements have been prepared as this entity was newly established in 2017.
- (v) The statutory financial statements for the year ended 31 December 2015, prepared in accordance with PRC GAAP and PRC Non-profit Organisation Accounting Principles, were audited by 北京中宏會計師事務所 (“Beijing Zhonghong Certified Public Accountants”), certified public accountants registered in the PRC. The statutory financial statements for the years ended 31 December 2016 and 2017, prepared in accordance with PRC GAAP and PRC Non-profit Organisation Accounting Principles, were audited by 河北天健會計師事務所 (“Hebei Tianjian Certified Public Accountants”), certified public accountants registered in the PRC.
- (vi) These entities have not appointed an auditor to issue statutory financial statements for the years ended 31 December 2015, 2016 and 2017 as they were not required to prepare statutory financial statements by local authorities.
- (vii) The statutory financial statements for the years ended 31 December 2015, 2016 and 2017, prepared in accordance with PRC GAAP and PRC Non-profit Organisation Accounting Principles, were audited by 河北中瑞會計師事務所 (“Hebei Zhongrui Certified Public Accountants”), certified public accountants registered in the PRC.
- (viii) The statutory financial statements for the years ended 31 December 2015 and 2016, prepared in accordance with PRC GAAP and PRC Non-profit Organisation Accounting Principles, were audited by Hebei Zhongrui Certified Public Accountants, certified public accountants registered in the PRC. The statutory financial statements for the year ended 31 December 2017, prepared in accordance with PRC GAAP and PRC Non-profit Organisation Accounting Principles, were audited by 石家莊市萬信達會計師事務所 (“Shijiazhuang Wanxinda Certified Public Accountants”), certified public accountants registered in the PRC.
- (ix) The statutory financial statements for the periods from the respective dates of establishment to 31 December 2015 and the years ended 31 December 2016 and 2017, prepared in accordance with PRC GAAP and PRC Non-profit Organisation Accounting Principles, were audited by Hebei Zhongrui Certified Public Accountants, certified public accountants registered in the PRC.
- (x) The statutory financial statements for the years ended 31 December 2015, 2016 and 2017, prepared in accordance with PRC GAAP and PRC Non-profit Organisation Accounting Principles, were audited by 河北中實會計師事務所 (“Hebei Zhongshi Certified Public Accountants”), certified public accountants registered in the PRC.
- (xi) The statutory financial statements for the periods from the respective dates of establishment to 31 December 2016 and the year ended 31 December 2017, prepared in accordance with PRC GAAP and PRC Non-profit Organisation Accounting Principles, were audited by Hebei Zhongshi Certified Public Accountants, certified public accountants registered in the PRC.
- (xii) No audited financial statements for the year ended 31 December 2016 have been prepared as this entity was newly established in 2016. The statutory financial statements for the year ended 31 December 2017, prepared in accordance with PRC Generally Accepted Accounting Principles (“PRC GAAP”), were audited by Hebei Zhongshi Certified Public Accountants, certified public accountants registered in the PRC.

* The English names of the above companies represent the best effort made by the directors of the Company (the “Directors”) to translate the Chinese names as these companies have not been registered with any official English names.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the section headed “History and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 17 October 2017.

Due to regulatory restrictions on foreign ownership in the schools in the PRC, the Listing Businesses were carried out by Zerui Education, Shijiazhuang Institute of Technology, Shijiazhuang Saintach and its tutorial centers (collectively, “Saintach Tutorial Centers”) and Hebei Saintach and its kindergartens (collectively, “Saintach Kindergartens”) (collectively, the “PRC Operating Entities”) during the Relevant Periods. Pursuant to the Reorganisation, Sheng Dao Xiang Cheng, the Company’s wholly-owned subsidiary, has entered into the structure contracts (the “Structured Contracts”) with, among others, the PRC Operating Entities and their respective equity holders. The arrangements of the Structured Contracts enable Sheng Dao Xiang Cheng to exercise effective control over the PRC Operating Entities and obtain substantially all economic benefits of the PRC Operating Entities. Accordingly, the PRC Operating Entities are controlled by the Company based on the Structured Contracts though the Company does not have any direct or indirect equity interest in the PRC Operating Entities. Details of the Structured Contracts are disclosed in the section headed “Structured Contracts” in the Prospectus.

The companies now comprising the Group, including the PRC Operating Entities, were under the common control of Mr. Li Yunong (“Mr. Li”) and Ms. Luo Xinlan (“Ms. Luo”) (collectively, the “Controlling Shareholders”) before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Relevant Periods and the Group is regarded as a continuing entity.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2015, 2016 and 2017 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders’ perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity by applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (the “IASB”). All IFRSs effective for the accounting period commencing from 1 January 2017, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention.

The Group had net current liabilities of approximately RMB24,614,000 as at 31 December 2017 which was primarily attributable to the capital outlay for acquiring certain education-related operating assets during the year ended 31 December 2016 (note 29 (iii)). In view of the net current liabilities position, the Directors have given careful consideration of the Group's operating performance, the availability of sources of financing and the future cash flows in assessing the Group's capability to continue its business as a going concern. Taking into consideration the increase in the number of students intake, the cash flows from operation and the positive operating results, the Directors are of the opinion that it is appropriate to prepare the Historical Financial Information on a going concern basis.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

IFRS 9	<i>Financial Instruments</i> ¹
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ¹
Amendments to IFRS 15	<i>Clarifications to IFRS 15 Revenue from Contracts with Customers</i> ¹
IFRS 16	<i>Leases</i> ²
IFRS 17	<i>Insurance Contracts</i> ³
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ¹
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ²
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ¹
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ¹
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ²
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ²
Amendments to IAS 40	<i>Transfers of Investment Property</i> ¹
<i>Annual Improvements to IFRSs 2014-2016 Cycle</i>	Amendments to the following standards: <i>IFRS 1 First-time Adoption of International Financial Reporting Standards</i> ¹
<i>Annual Improvements to IFRSs 2015-2017 Cycle</i>	<i>IAS 28 Investments in Associates and Joint Ventures</i> ¹ Amendments to the following standards: <i>IFRS 3 Business Combinations</i> ² <i>IFRS 11 Joint Arrangements</i> ² <i>IAS 12 Income Taxes</i> ² <i>IAS 23 Borrowing Costs</i> ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Directors expect that the adoption of IFRS 9 will not have a material impact on the Group's financial statements.

IFRS 15 and Clarifications to IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In June 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 on 1 January 2018.

The Directors expect that the adoption of IFRS 15 in 2018 is unlikely to have a significant impact on the recognition of service income from the provision of education related services. However, there will be additional disclosures upon the adoption of IFRS 15.

IFRS 16 *Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. For lease accounting, the standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use ("ROU") asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. For lessor accounting, the standard substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 requires lessees and lessors to make more extensive disclosures than IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt IFRS 16 from 1 January 2019. The Group is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted.

The Directors expect that this standard will have a material effect on the financial position of the Group given that the total non-cancellable operating lease commitments accounted for approximately 11% of the total liabilities of the Group as at 31 December 2017, which would result in the recognition of ROU assets and lease liabilities in the consolidated statement of financial position of the Group for operating leases of the premises. The amount of the future minimum lease payments under non-cancellable operating leases as disclosed in note 27 to the Historical Financial Information was approximately RMB53,807,000, RMB20,951,000, and RMB18,116,000 as at 31 December 2015, 2016 and 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) as at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made as at the end of each Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;
or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; and the sponsoring employers of the post-employment benefit plan;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and facilities	4.75% to 19.00%
Leasehold improvements	20.00%
Equipment	19.00% to 31.67%
Furniture and fixtures	19.00%
Motor vehicles	11.88% to 23.75%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least as at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least as at each financial year end.

Computer softwares

Purchased computer softwares are stated at cost less any impairment losses and are amortised on a straight-line basis over their estimated useful lives of 5 to 10 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rental payable under operating leases net of any incentives received from the lessor are charged to profit or loss on a straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on a straight-line basis over the lease terms.

Investments and other financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale investment

Available-for-sale investment is a non-derivative financial asset in unlisted equity investment.

When the fair value of the unlisted equity investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such an investment is stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial asset in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade this financial asset due to inactive markets, the Group may elect to reclassify the financial asset if the Group has the ability and intention to hold the asset for the foreseeable future or until maturity.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses as at the end of each of the Relevant Periods whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

Available-for-sale investment

For an available-for-sale investment, the Group assesses as at the end of each of the Relevant Periods whether there is objective evidence that the investment is impaired.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on this asset is not reversed.

Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and accruals, amounts due to related parties, and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank and other borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Group's consolidated statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences as at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, joint ventures and associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed as at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed as at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Service income includes: (a) the tuition fees, boarding fees and the college operation service fees from the college; (b) the tuition fees from kindergartens; (c) the tuition fees from tutorial centers; and (d) the franchise service fees from the kindergarten franchisees.

- (a) Tuition and boarding fees from the college are generally received in advance prior to the beginning of each academic year, and are initially recorded as deferred revenue. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded as 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 schools is generally from September to June of the following year.

College operation service fees represent service income derived from the provision of college operation services by the Group which includes school operation services and accommodation services provided to the students. The school operation service income is recognised upon the delivery of the relevant services. Accommodation service fees are collected from the students in advance and are subsequently recognised proportionately over the relevant period of the applicable program;

- (b) Tuition fees from kindergartens are generally received in advance at the beginning of every month and are recognised as revenue when the service is provided;
- (c) Tuition fees from tutorial centers are collected in advance on a lump-sum basis. Revenue is recognised after a service contract is signed and the tutoring services are rendered; and
- (d) Franchise service fees are received from the franchisees in connection with the Group's kindergarten management services which are recognised as revenue upon the delivery of the relevant services.

Income from other services provided by the Group is recognised in the period in which the services are rendered.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income from a financial asset is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits***Pension scheme***

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

The Historical Financial Information is presented in RMB. The functional currency of the Company is Hong Kong dollars ("HK\$"). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling as at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of the certain overseas subsidiaries are currencies other than RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing as at the end of each of the Relevant Periods and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Contractual arrangements

The PRC Operating Entities are mainly engaged in the provision of education services and the relevant management services, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such businesses.

As disclosed in note 2.1 to the Historical Financial Information, as part of the Reorganisation, the Group exercises control over the PRC Operating Entities and enjoys substantially all economic benefits of the PRC Operating Entities through the Structured Contracts.

The Company does not have any equity interest in the PRC Operating Entities. However, as a result of the Structured Contracts, the Company has power over the PRC Operating Entities, has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities and is therefore considered to have control over the PRC Operating Entities. Consequently, the Company regards the PRC Operating Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the PRC Operating Entities in the Historical Financial Information during the Relevant Periods.

Current and deferred tax

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgement about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the period when such determination is made.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets as at the end of each of the Relevant Periods. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed as at the end of each of the Relevant Periods. Further details of the property, plant and equipment are set out in note 13 to the Historical Financial Information.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of education services and the college management services in the PRC.

For management purposes, the Group is organised into business units based on their services and had three segments including tertiary education service provided by Shijiazhuang Institute of Technology, tutorial center education service provided by Saintach Tutorial Centers and preschool education service provided by Saintach Kindergartens.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that finance costs, interest income and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude cash and bank balances, term deposits, amounts due from related parties and an available-for-sale investment and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, amounts due to related parties, tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2015	Tertiary education	Tutorial center education	Preschool education	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	73,547	38,974	34,773	147,294
Other segment revenue	3,000	183	1,321	4,504
Total	<u>76,547</u>	<u>39,157</u>	<u>36,094</u>	<u>151,798</u>
Segment results	45,893	13,428	4,250	63,571
<i>Reconciliation:</i>				
Finance costs				(14,600)
Interest income				7,599
Unallocated expenses				<u>(28,360)</u>
Profit before tax				<u>28,210</u>
Segment assets	27,626	1,922	12,234	41,782
<i>Reconciliation:</i>				
Available-for-sale investment				14,731
Amounts due from related parties				249,076
Cash and bank balances				13,612
Other unallocated head office and corporate assets				<u>27,720</u>
Total assets				<u>346,921</u>
Segment liabilities	(53,900)	(24,856)	(16,762)	(95,518)
<i>Reconciliation:</i>				
Interest-bearing bank and other borrowings				(57,800)
Amounts due to related parties				(44,954)
Tax payable				(1,431)
Unallocated head office and corporate liabilities				<u>(1,809)</u>
Total liabilities				<u>(201,512)</u>
Other segment information:				
Depreciation and amortisation	3,868	556	2,609	7,033
Capital expenditure^	8,283	296	3,384	11,963
Loss on disposal of items of property, plant and equipment	<u>125</u>	<u>158</u>	<u>22</u>	<u>305</u>

^: Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Year ended 31 December 2016	Tertiary education	Tutorial center education	Preschool education	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	79,112	42,547	24,849	146,508
Other segment revenue	5,430	117	3,797	9,344
Total	84,542	42,664	28,646	155,852
Segment results	54,173	13,109	9,073	76,355
<i>Reconciliation:</i>				
Finance costs				(4,693)
Interest income				73
Unallocated expenses				(31,274)
Profit before tax				40,461
Segment assets	195,233	3,977	7,772	206,982
<i>Reconciliation:</i>				
Amounts due from related parties				48,220
Cash and bank balances				5,320
Unallocated head office and corporate assets				1,022
Total assets				261,544
Segment liabilities	(72,399)	(25,783)	(15,025)	(113,207)
<i>Reconciliation:</i>				
Interest-bearing bank and other borrowings				(34,322)
Tax payable				(1,647)
Unallocated head office and corporate liabilities				(441)
Total liabilities				(149,617)
Other segment information:				
Depreciation and amortisation	4,639	385	1,374	6,398
Capital expenditure^	174,288	351	777	175,416
Gain on disposal of operating assets of certain kindergartens	–	–	2,730	2,730
Loss on disposal of items of property, plant and equipment	99	–	3	102

^: Capital expenditure consists of additions of property, plant and equipment, prepaid land lease payments and intangible assets.

Year ended 31 December 2017	Tertiary education	Tutorial center education	Preschool education	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	94,846	45,971	28,924	169,741
Other segment revenue	7,967	66	1,416	9,449
Total	102,813	46,037	30,340	179,190
Segment results	61,130	16,445	7,686	85,261
<i>Reconciliation:</i>				
Finance costs				(3,843)
Interest income				648
Unallocated expenses				(36,643)
Profit before tax				45,423
Segment assets	192,095	4,099	5,421	201,615
<i>Reconciliation:</i>				
Amounts due from related parties				1,314
Term deposits				70,000
Cash and bank balances				39,864
Unallocated head office and corporate assets				4,618
Total assets				317,411
Segment liabilities	(81,407)	(25,717)	(14,551)	(121,675)
<i>Reconciliation:</i>				
Interest-bearing bank and other borrowings				(35,106)
Tax payable				(1,849)
Unallocated head office and corporate liabilities				(1,190)
Total liabilities				(159,820)
Other segment information:				
Depreciation and amortisation	11,445	219	1,118	12,782
Capital expenditure^	3,572	257	1,008	4,837
Loss on disposal of items of property, plant and equipment	233	12	4	249

^: Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Geographical information

During the Relevant Periods, the Group operated within one geographical area because all of its revenue was generated in Mainland China and all of its long-term assets were located in Mainland China. Accordingly, no geographical information is presented.

Information about major customers

During the Relevant Periods, revenue from a major customer who contributed over 10% of the total revenue of the Group is as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
河北廿一世紀教育投資有限公司 Hebei Lionful Education Investment Co., Ltd. ("Lionful Education")	17,888	17,970	18,059

Lionful Education is a related party of the Group. Details about the Group's services rendered to Lionful Education are set out in note 30(d)(3) to the Historical Financial Information.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of services rendered, after deducting scholarships and refunds during the Relevant Periods.

An analysis of revenue, other income and gains is as follows:

		Year ended 31 December		
	Notes	2015	2016	2017
		RMB'000	RMB'000	RMB'000
Revenue				
Tertiary education				
Tuition fees		45,810	49,268	58,795
Boarding fees		4,881	5,173	5,739
College operation service income	(i)	19,653	19,711	19,836
Others	(ii)	3,203	4,960	10,476
		73,547	79,112	94,846
Tutorial center education				
Tutoring fees		38,974	42,547	45,971
Preschool education				
Tuition fees		34,264	24,586	28,924
Franchise fees		509	263	—
		34,773	24,849	28,924
		147,294	146,508	169,741
Other income and gains				
Interest income				
— from bank		43	73	648
— from related parties	30(d)(1)	7,556	—	—
		7,599	73	648
Site use fees	(iii)	1,343	3,319	4,636
Gain on disposal of operating assets of certain kindergartens	29(i)	—	2,730	—
Sale of education materials and living goods . .		1,399	2,055	2,864
Others		1,762	1,240	1,949
		12,103	9,417	10,097

Notes:

- (i) The college operation service income comprises the service income derived from the provision of college operation service and the provision of accommodation service to the students. Details of the arrangements are set out in note 30(d)(3) to the Historical Financial Information;
- (ii) Others primarily represent service fees received from certain independent universities in respect of the provision of student recruitment services, income received from the provision of vocational training and examination preparation courses and income derived from granting the right of canteen management; and
- (iii) Amounts represent usage fees received from certain colleges and enterprises in connection with their uses of the school premises and facilities of the Group to organise teaching and training activities.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	Year ended 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Employee benefit expense (excluding directors' remuneration (note 8):				
Wages and salaries		61,513	60,645	65,716
Pension scheme contributions (defined contribution scheme)		11,143	9,648	9,170
		<u>72,656</u>	<u>70,293</u>	<u>74,886</u>
Depreciation	13	6,862	6,045	10,813
Recognition of prepaid land lease payments	14	–	146	1,758
Amortisation of intangible assets*	15	171	207	211
Minimum lease payments under operating leases:				
– Buildings		8,073	6,002	8,761
– Others		925	674	551
		<u>8,998</u>	<u>6,676</u>	<u>9,312</u>
Auditor's remuneration		30	144	471
Listing expenses		–	4,877	11,653
Loss on disposal of items of property, plant and equipment		<u>305</u>	<u>102</u>	<u>249</u>

* The amortisation of intangible assets for the years ended 31 December 2015, 2016 and 2017 is included in "Cost of sales" in the consolidated statements of profit or loss and other comprehensive income.

7. FINANCE COSTS

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest on bank and other borrowings	12,863	3,810	3,061
Financing consultancy service charges^	1,737	883	782
	<u>14,600</u>	<u>4,693</u>	<u>3,843</u>

^ The financing consultancy service charges represented service fees paid by the Group in respect of certain bank and other borrowings obtained by the Group during the Relevant Periods.

8. DIRECTORS' REMUNERATION

The Company appointed Mr. Liu Zhanjie as a director on 20 September 2016 and re-designated as an executive director on 19 January 2017, and was appointed as the chief executive officer of the Company on 30 August 2017.

Mr. Li, Ms. Liu Hongwei and Mr. Ren Caiyin were appointed as executive directors of the Company on 19 January 2017 and Ms. Yang Li was appointed as an executive director of the Company on 15 February 2017. Mr. Guo Litian, Mr. Ma Guoqing and Mr. Yao Zhijun were appointed as independent non-executive directors of the Company on 19 January 2017.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as management of these subsidiaries. The remuneration of each of these directors which have been recorded in the financial statements of the Group's subsidiaries is set out below:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	253	268	403
Pension scheme contributions	124	109	148
	<u>377</u>	<u>377</u>	<u>551</u>
	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015			
Mr. Li	60	26	86
Mr. Liu Zhanjie	—	—	—
Ms. Liu Hongwei	107	61	168
Mr. Ren Caiyin	86	37	123
Ms. Yang Li	—	—	—
	<u>253</u>	<u>124</u>	<u>377</u>
Year ended 31 December 2016			
Mr. Li	69	26	95
Mr. Liu Zhanjie	—	—	—
Ms. Liu Hongwei	95	46	141
Mr. Ren Caiyin	104	37	141
Ms. Yang Li	—	—	—
	<u>268</u>	<u>109</u>	<u>377</u>

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000
Year ended 31 December 2017			
Mr. Li	108	29	137
Mr. Liu Zhanjie	61	9	70
Ms. Liu Hongwei	99	43	142
Mr. Ren Caiyin	93	44	137
Ms. Yang Li	42	23	65
	<u>403</u>	<u>148</u>	<u>551</u>

The independent non-executive directors did not receive any directors' remuneration in the capacity of independent non-executive directors during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

During the Relevant Periods, none of the Group's five highest paid employees were directors mentioned in note 8 to the Historical Financial Information.

Details of the remuneration of the Group's five highest paid employees during the Relevant Periods are as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	717	838	1,051
Pension scheme contributions	191	236	252
	<u>908</u>	<u>1,074</u>	<u>1,303</u>

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Year ended 31 December		
	2015	2016	2017
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to these senior management personnel as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax.

The Company's directly held subsidiary was incorporated in the BVI as an exempted company with limited liability under the BVI Companies Act 2004 and accordingly is not subject to income tax.

Hong Kong Profits Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the Relevant Periods.

PRC Corporate Income Tax

Pursuant to the PRC Income Tax Law and the respective regulations, all of the Group's non-school subsidiaries established in the PRC are subject to the PRC Corporate Income Tax ("corporate income tax") of 25% during the Relevant Periods.

During the Relevant Periods, in accordance with the historical tax returns filed with the relevant tax authorities and the confirmations obtained therefrom, except for the tutorial centers and certain kindergartens, there was no corporate income tax imposed on Shijiazhuang Institute of Technology and certain kindergartens in respect of the education services provided since their establishment.

Based on the confirmations from the in-charge local tax bureau and the local office of the State Administration of Taxation of Shijiazhuang Institute of Technology, there is no corporate income tax imposed on the income from the provision of educational services by Shijiazhuang Institute of Technology. As a result, no income tax expense was recognised by Shijiazhuang Institute of Technology during the Relevant Periods.

Tutorial centers of the Group which provide non-academic educational services are subject to corporate income tax at a rate of 25%.

All of the Group's kindergartens are domiciled in Shijiazhuang city, Hebei Province. Based on the confirmations from the local tax bureaus and the local offices of the State Administration of Taxation in the respective districts of Shijiazhuang city governing the Group's kindergartens, i) there was no corporate income tax imposed on the income from the provision of preschool services by Fukang, Zhengding and Tianshan during the Relevant Periods; ii) as a result of change of governing tax authority of the domiciled districts, corporate income tax began to be imposed on Fumenli and Qinghui from 1 May 2016 and 1 April 2017 onwards, respectively. Before the respective dates, there was no corporate income tax imposed on the income from the provision of preschool services by Fumenli and Qinghui; and iii) other kindergartens of the Group including Blue Crystal, Lidu and Jianhua are subject to corporate income tax at a rate of 25% during the Relevant Periods.

Corporate income tax of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during the Relevant Periods.

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current – the PRC			
Charge for the year	1,474	443	385

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate of the majority of the Group's subsidiaries to the tax expense at the effective tax rate for each of the Relevant Periods is as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit before tax	28,210	40,461	45,423
Tax at the statutory tax rate	7,052	10,115	11,356
Profit arising from schools not subject to tax	(11,406)	(12,808)	(15,305)
Expenses not deductible for tax	1,168	662	484
Tax losses utilised from previous periods	(249)	(466)	(512)
Tax losses not recognised	4,909	2,940	4,362
	1,474	443	385

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As at 31 December 2017, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's earnings will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. As at 31 December 2015, 2016 and 2017, the aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised amounted to approximately RMB33,996,000, RMB28,624,000 and RMB39,451,000, respectively.

As at 31 December 2015, 2016 and 2017, the Group has tax losses arising in Mainland China of RMB14,325,000, RMB13,745,000 and RMB7,540,000, respectively, which will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

A dividend of RMB70,000,000 was declared by Shijiazhuang Institute of Technology during the year ended 31 December 2016. The dividend payable was settled by offsetting with part of the amount due from Lionful Education as at 31 December 2016 (note 29(ii)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Leasehold improvements	Equipment	Furniture and fixtures	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2015						
At 1 January 2015:						
Cost	2,740	18,941	26,021	19,229	52	66,983
Accumulated depreciation . . .	(367)	(8,751)	(19,953)	(15,213)	(33)	(44,317)
Net carrying amount	2,373	10,190	6,068	4,016	19	22,666
At 1 January 2015, net of						
accumulated depreciation . . .	2,373	10,190	6,068	4,016	19	22,666
Additions	5,231	3,791	1,553	1,278	12	11,865
Disposals	–	–	(151)	(269)	–	(420)
Depreciation provided during the year (note 6)	(130)	(3,657)	(1,853)	(1,218)	(4)	(6,862)
At 31 December 2015, net of						
accumulated depreciation . . .	7,474	10,324	5,617	3,807	27	27,249
At 31 December 2015						
Cost	7,971	22,732	27,384	19,725	64	77,876
Accumulated depreciation . . .	(497)	(12,408)	(21,767)	(15,918)	(37)	(50,627)
Net carrying amount	7,474	10,324	5,617	3,807	27	27,249
31 December 2016						
At 1 January 2016:						
Cost	7,971	22,732	27,384	19,725	64	77,876
Accumulated depreciation . . .	(497)	(12,408)	(21,767)	(15,918)	(37)	(50,627)
Net carrying amount	7,474	10,324	5,617	3,807	27	27,249
At 1 January 2016, net of						
accumulated depreciation . . .	7,474	10,324	5,617	3,807	27	27,249
Additions	105,221	3,779	1,468	697	–	111,165
Disposals	–	(2,101)	(544)	(795)	–	(3,440)
Depreciation provided during the year (note 6)	(669)	(3,009)	(1,613)	(748)	(6)	(6,045)
At 31 December 2016, net of						
accumulated depreciation . . .	112,026	8,993	4,928	2,961	21	128,929
At 31 December 2016:						
Cost	113,192	22,427	27,779	19,017	64	182,479
Accumulated depreciation . . .	(1,166)	(13,434)	(22,851)	(16,056)	(43)	(53,550)
Net carrying amount	112,026	8,993	4,928	2,961	21	128,929

During the year ended 31 December 2016, certain properties were transferred to the Group from Lionful Education for a consideration of RMB104,941,000. Details of the transfer are set out in note 29(iii) to the Historical Financial Information.

	Buildings and facilities	Leasehold improvements	Equipment	Furniture and fixtures	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017						
At 1 January 2017:						
Cost	113,192	22,427	27,779	19,017	64	182,479
Accumulated depreciation . . .	(1,166)	(13,434)	(22,851)	(16,056)	(43)	(53,550)
Net carrying amount	<u>112,026</u>	<u>8,993</u>	<u>4,928</u>	<u>2,961</u>	<u>21</u>	<u>128,929</u>
At 1 January 2017, net of						
accumulated depreciation . . .	112,026	8,993	4,928	2,961	21	128,929
Additions	108	708	2,707	866	–	4,389
Disposals	(8)	–	(123)	(118)	–	(249)
Depreciation provided during the year (note 6)	<u>(5,601)</u>	<u>(3,138)</u>	<u>(1,513)</u>	<u>(555)</u>	<u>(6)</u>	<u>(10,813)</u>
At 31 December 2017, net of						
accumulated depreciation . . .	<u>106,525</u>	<u>6,563</u>	<u>5,999</u>	<u>3,154</u>	<u>15</u>	<u>122,256</u>
At 31 December 2017:						
Cost	113,144	23,135	29,824	19,111	64	185,278
Accumulated depreciation . . .	(6,619)	(16,572)	(23,825)	(15,957)	(49)	(63,022)
Net carrying amount	<u>106,525</u>	<u>6,563</u>	<u>5,999</u>	<u>3,154</u>	<u>15</u>	<u>122,256</u>

14. PREPAID LAND LEASE PAYMENTS

	Year ended 31 December	
	2016	2017
	RMB'000	RMB'000
Carrying amount at beginning of year	–	63,857
Additions	64,003	–
Recognised during the year (note 6)	<u>(146)</u>	<u>(1,758)</u>
Carrying amount at the end of year	63,857	62,099
Current portion included in prepayments, deposits and other receivables (note 17)	<u>(1,758)</u>	<u>(1,758)</u>
Non-current portion	<u>62,099</u>	<u>60,341</u>

A parcel of leasehold land was transferred to the Group from Lionful Education for a consideration of RMB64,003,000 during the year ended 31 December 2016. Details of the transfer are set out in note 29(iii) to the Historical Financial Information.

The Group has obtained the land use right certificate for the land it occupied. The land is legally and jointly owned by the Group and Lionful Education.

According to an agreement between Lionful Education and the Group, disposal of the land is subject to unanimous written consent by both Lionful Education and the Group. As such, neither Lionful Education nor the Group is entitled to dispose of the land without the prior written consent from the other party.

15. INTANGIBLE ASSETS

	Computer softwares
	RMB'000
31 December 2015	
Cost at 1 January 2015, net of accumulated amortisation	905
Additions	98
Amortisation provided during the year (note 6)	(171)
At 31 December 2015, net of accumulated amortisation	832
At 31 December 2015:	
Cost.	1,385
Accumulated amortisation	(553)
Net carrying amount	832
31 December 2016	
Cost at 1 January 2016, net of accumulated amortisation	832
Additions	248
Amortisation provided during the year (note 6)	(207)
At 31 December 2016, net of accumulated amortisation	873
At 31 December 2016:	
Cost.	1,633
Accumulated amortisation	(760)
Net carrying amount	873
31 December 2017	
Cost at 1 January 2017, net of accumulated amortisation	873
Additions	448
Amortisation provided during the year (note 6)	(211)
At 31 December 2017, net of accumulated amortisation	1,110
At 31 December 2017:	
Cost.	2,081
Accumulated amortisation	(971)
Net carrying amount	1,110

16. AVAILABLE-FOR-SALE INVESTMENT

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Unlisted equity investment, at cost	14,731	—	—

During the year ended 31 December 2015, 北京新天際教育科技有限公司 (“Beijing Saintach Education & Technology Co., Ltd.”) (“Beijing Saintach”) transferred its equity interest of 4.9% in 石家莊市鹿泉農村信用合作聯社 (“Shijiazhuang Luquan Rural Credit Cooperatives”) (“Luquan RC”) to the Group for a cash consideration of RMB14,731,000. Beijing Saintach is a company collectively controlled by the Controlling Shareholders of the Group.

As at 31 December 2015, the Group's investment in Luquan RC was stated at cost less impairment because the variability in the range of reasonable fair value estimates was so significant that the Directors are of the opinion that its fair value could not be measured reliably.

As at 31 December 2015, the Group's investment in Luquan RC was pledged to an independent financing guarantee company to secure a bank loan of RMB13,000,000 (note 21(iv)).

In January 2016, the Group disposed of all its equity interest in Luquan RC to 石家莊市鹿泉區大學城管理公司 ("Shijiazhuang City Luquan District University Town Management Company") ("University Town Management Company") at cost of RMB14,731,000. University Town Management Company was a company then controlled by Lionful Education, a related party of the Group, for certain time in the Relevant Periods (note 30(d)(7)).

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayments	3,862	4,384	6,909
Deposits	8,348	5,445	7,251
Other receivables	28,323	2,886	1,121
Listing expenses	–	1,022	4,308
Current portion of prepaid land lease payments (note 14)	–	1,758	1,758
	<u>40,533</u>	<u>15,495</u>	<u>21,347</u>

As at 31 December 2015, an other receivable of RMB240,000 was pledged to a bank to secure a bank loan of RMB2,400,000 (note 21(ii)). The pledge was released during the year ended 31 December 2016 and the receivables balance was settled accordingly.

The above balances are interest-free and are not secured with collateral.

18. TRADE RECEIVABLES

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Tuition receivables	<u>888</u>	<u>608</u>	<u>1,179</u>

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the transaction date and net of provisions, is as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within one year	<u>888</u>	<u>608</u>	<u>1,179</u>

Trade receivables represented amounts due from certain of the Group's college and kindergarten students.

None of the above trade receivables is either past due or impaired. The receivables have no recent history of default.

19. CASH AND BANK BALANCES AND TERM DEPOSITS

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cash and bank balances	13,612	5,320	39,864
Term deposits	—	—	70,000
	13,612	5,320	109,864
Less: Term deposits with original maturity over three months	—	—	(70,000)
Cash and bank balances	13,612	5,320	39,864
Denominated in:			
RMB	13,612	5,320	108,729
US\$	—	—	1,135
Australian dollars (AU\$)	—	—	—*
Cash and bank balances and term deposits	13,612	5,320	109,864

* Less than RMB1,000

The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and term deposits are deposited with creditworthy banks with no recent history of default.

20. OTHER PAYABLES AND ACCRUALS

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salary and welfare payables	32,416	34,441	31,196
Miscellaneous advances from students*	6,420	13,561	14,870
Other tax payables	3,112	3,687	3,804
Payables for purchases of property, plant and equipment	1,735	2,911	1,076
Deposits	3,219	2,972	3,001
Interest payables	334	236	169
Accrued listing expenses	—	218	637
Scholarships	135	233	241
Other payables	5,342	6,209	9,271
Current portion of deferred rental obligations (note 23)	—	—	289
	52,713	64,468	64,554

* Balances mainly represented miscellaneous advances received from students for purchasing uniforms and textbooks on their behalf.

The above balances are unsecured and non-interest bearing. The carrying amounts of other payables and accruals as at the end of each of the Relevant Periods approximated to their fair values due to their short term maturities.

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

31 December 2015

	Notes	Effective interest rate (%)	Maturity	RMB'000
Current				
Bank loans – secured	(i)	8.56	2016	2,400
Bank loans – unsecured	(ii)	4.79	2016	20,000
Current portion of long term bank loan – secured	(iii)	9.74	2016	2,600
Current portion of long term bank loan – unsecured	(iv)	11.17	2016	6,500
Current portion of long term other borrowings – secured	(v)/(vi)/(vii)	5.50-6.40	2016	6,600
				<u>38,100</u>
Non-current				
Bank loan – secured	(iii)	9.74	2017	3,400
Bank loan – unsecured	(iv)	11.17	2017	6,500
Other borrowings – secured	(vi)/(vii)	5.50-6.00	2017-2018	9,800
				<u>19,700</u>
Total				<u><u>57,800</u></u>

31 December 2016

	Notes	Effective interest rate (%)	Maturity	RMB'000
Current				
Current portion of long term bank loan – secured [#]	(iii)	9.74	2017	6,000
Current portion of long term bank loan – unsecured	(viii)	10.93	2017	12,000
Current portion of long term other borrowings – secured	(ix)/(x)	5.50-6.00	2017	6,000
Current portion of long term other borrowing – unsecured	(xi)	8.05	2017	2,216
				<u>26,216</u>
Non-current				
Bank loan – unsecured	(viii)	10.93	2018	1,000
Other borrowings – secured	(ix)/(x)	5.50-6.00	2018	3,800
Other borrowing – unsecured	(xi)	8.05	2018-2019	3,306
				<u>8,106</u>
Total				<u><u>34,322</u></u>

31 December 2017

	Notes	Effective interest rate (%)	Maturity	RMB'000
Current				
Bank loans – unsecured	(xii)	5.44	2018	15,000
Current portion of long term bank loan – unsecured [#]	(viii)	10.93	2018	13,000
Current portion of long term other borrowings – secured	(xiii)/(xiv)	5.50-6.00	2018	3,800
Current portion of long term other borrowing – unsecured		8.05	2018	2,585
				<u>34,385</u>
Non-current				
Other borrowing – unsecured		8.05	2019	721
				<u>721</u>
Total				<u><u>35,106</u></u>

[#] renewed during the year

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Analysed into:			
Bank loans repayable:			
Within one year or on demand	31,500	18,000	28,000
In the second year	9,900	1,000	–
	<u>41,400</u>	<u>19,000</u>	<u>28,000</u>
Other borrowings repayable:			
Within one year or on demand	6,600	8,216	6,385
In the second year	6,000	6,385	721
In the third to fifth years, inclusive	3,800	721	–
	<u>16,400</u>	<u>15,322</u>	<u>7,106</u>
	<u><u>57,800</u></u>	<u><u>34,322</u></u>	<u><u>35,106</u></u>

Other borrowings of the Group represent borrowings obtained from independent financial institutions.

Details of guarantees and/or securities provided by the Group and its related parties or third parties in connection with certain bank and other borrowings obtained by the Group during each of the Relevant Periods are set forth as follows:

- (i) As at 31 December 2015, a bank loan of RMB2,400,000 was secured by a deposit of RMB240,000 and guaranteed by 河北省小微企業金融促進會, 河北汲涑環保設備科技有限公司 and Mr. Li. In the opinion of the Directors, 河北省小微企業金融促進會 and 河北汲涑環保設備科技有限公司 were independent third parties of the Group. Pursuant to the relevant bank loan agreement, the bank deposit was required to be deposited into a designated bank account under the name of the legal representative of a subsidiary of the Group. Such bank deposit was recorded as the Group's other receivable as at 31 December 2015 (note 17).

- (ii) As at 31 December 2015, a bank loan of RMB20,000,000 was guaranteed by an independent financing guarantee company as well as jointly and severally guaranteed by Lionful Education and Mr. Li. Pursuant to the relevant guarantee agreement with the independent financing guarantee company, a counter guarantee arrangement was required comprising a) joint and several guarantee provided by Hebei Anlian, Lionful Education and Lionful Investment Holding; b) personal guarantees provided by Mr. Li and his spouse; and c) the pledge of properties owned by certain employees of the Group and Mr. Li, respectively.
 - (iii) As at 31 December 2015 and 2016, a bank loan of RMB6,000,000 was secured by certain properties owned by Lionful Education.
 - (iv) As at 31 December 2015, a bank loan of RMB13,000,000 was guaranteed by an independent financing guarantee company. Pursuant to the relevant guarantee agreement with the independent financing guarantee company, a counter guarantee arrangement was required comprising a) joint and several guarantee provided by Lionful Education, Beijing Saintach and Mr. Li; and b) the pledge of the Group's available-for-sale investment of RMB14,731,000 (note 16).
 - (v) As at 31 December 2015, an other borrowing of RMB600,000 was guaranteed by Lionful Education, Lionful Investment Holding, and Mr. Li and secured by a property owned by Mr. Li.
 - (vi) As at 31 December 2015, an other borrowing of RMB11,600,000 was guaranteed by Lionful Education, Lionful Investment Holding and Mr. Li and secured by properties owned by certain employees of the Group.
 - (vii) As at 31 December 2015, an other borrowing of RMB4,200,000 was guaranteed by Lionful Education, Lionful Investment Holding and Mr. Li and secured by a property owned by a director of the Company.
 - (viii) As at 31 December 2016, a bank loan of RMB13,000,000 was guaranteed by an independent financing guarantee company. Pursuant to the relevant guarantee agreement with the independent financing guarantee company, a counter guarantee arrangement was required comprising a) joint and several guarantee provided by an employee of the Group, University Town Management Company and Mr. Li; and b) the pledge of an equity investment owned by University Town Management Company.
- As at 31 December 2017, the joint and several guarantee provided by an employee of the Group, University Town Management Company and Mr. Li under the counter guarantee arrangement was released. In January 2018, the Group has fully repaid this bank loan.
- (ix) As at 31 December 2016, an other borrowing of RMB7,000,000 was guaranteed by Lionful Education, Lionful Investment Holding and Mr. Li and secured by properties owned by certain employees of the Group.
 - (x) As at 31 December 2016, an other borrowing of RMB2,800,000 was guaranteed by Lionful Education, Lionful Investment Holding and Mr. Li and secured by a property owned by a director of the Group.
 - (xi) As at 31 December 2016, an other borrowing of RMB5,522,000 was guaranteed by Lionful Education, Mr. Li and his spouse.
 - (xii) As at 31 December 2017, a bank borrowing of RMB15,000,000 was guaranteed by an independent financing guarantee company as well as jointly and severally guaranteed by Zerui Education.

(xiii) As at 31 December 2017, an other borrowing of RMB2,400,000 was secured by properties owned by certain employees of the Group.

(xiv) As at 31 December 2017, an other borrowing of RMB1,400,000 was secured by a property owned by a director of the Group.

22. DEFERRED REVENUE

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Tuition fees	38,777	42,738	47,239
Boarding fees	3,722	3,912	3,807
Others	904	1,568	6,484
	<u>43,403</u>	<u>48,218</u>	<u>57,530</u>

23. DEFERRED RENTAL OBLIGATIONS

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deferred rental obligations	1,211	962	1,070
Current portion included in other payables and accruals (note 20)	—	—	(289)
Non-current portion	<u>1,211</u>	<u>962</u>	<u>781</u>

Deferred rental obligations are arising from the operating lease arrangements in respect of certain properties leased by the Group.

24. SHARE CAPITAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 20 September 2016 with an authorised share capital of HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each, of which 8,896 and 1,104 shares were issued and allotted to Sainange Holdings Company Limited (“Sainange Holdings”) and Sainray Limited, respectively, credited as fully paid. Sainange Holdings and Sainray Limited are companies incorporated in the BVI and controlled by Mr. Li and Ms. Luo, respectively.

Save for the aforesaid and the Reorganisation, the Company has not conducted any business since the date of its incorporation.

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Issued and fully paid:			
10,000 ordinary shares of HK\$0.01 each	<u>—</u>	<u>—</u>	<u>—</u>

25. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

Capital reserve

As at 31 December 2015, 2016 and 2017, the capital reserve of the Group represents the capital contribution from its investors or school sponsors of the PRC Operating Entities.

During the year ended 31 December 2017, Zerui Education was established with a capital contribution of RMB15,000,000 from the Controlling Shareholders. Pursuant to the Reorganisation, Zerui replaced Lionful Education as the sole school sponsor of Shijiazhuang Institute of Technology. It has also acquired from Lionful Education all its equity interests in Shijiazhuang Institute of Technology, Hebei Saintach and Shijiazhuang Saintach at an aggregate cash consideration of RMB14,400,000. Details relating to this change of school sponsor and the transfer of equity interests in these entities are set out in the section headed "History and Corporate Structure" in the Prospectus.

Other reserve

During the year ended 31 December 2015, Hebei Saintach increased its registered capital and received a capital contribution of RMB4,000,000 from certain non-controlling shareholders. As a result of the capital contribution from the non-controlling shareholders, the equity interest in Hebei Saintach attributable to the Controlling Shareholders was deemed to be diluted even though the Controlling Shareholders continued to retain control over Hebei Saintach after this transaction. The difference between the capital contribution from and the equity interest attributable to these non-controlling shareholders was recorded in other reserve.

During the year ended 31 December 2016, the non-controlling shareholders as stated in the preceding paragraph withdrew their equity interest in Hebei Saintach for a cash consideration of RMB4,000,000. As a result of the withdrawal, the increase in the equity interest in Hebei Saintach attributable to the Controlling Shareholders was regarded as a deemed acquisition of non-controlling interests and the difference between the equity withdrawn by and the equity interest attributable to these non-controlling shareholders was recorded in other reserve.

Statutory surplus reserve

Pursuant to the relevant laws in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant subsidiaries in the PRC. These reserves include (i) general reserve of the limited liability companies; and (ii) the development fund of schools.

- 1) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve can be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.
- 2) According to the relevant PRC laws and regulations, private schools which require for reasonable returns are required to appropriate to the development fund not less than 25% of the net income of the relevant schools as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the schools or procurement or upgrade of educational equipment.

26. COMMITMENTS**Capital commitments**

The Group had the following capital commitments as at the end of each of the Relevant Periods:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Equipment	130	—	—

27. OPERATING LEASE ARRANGEMENTS**As lessee**

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 2 to 18 years. As at the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within one year	7,576	4,328	4,521
In the second to fifth years, inclusive	22,870	10,237	8,399
Beyond five years	23,361	6,386	5,196
	53,807	20,951	18,116

28. CONTINGENT LIABILITIES

As at 31 December 2015, 2016 and 2017, the Group did not have any significant contingent liabilities.

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

- (i) During the year ended 31 December 2016, the Group has disposed of operating assets of certain kindergartens managed under Hebei Saintach to an independent third party for a cash consideration of RMB5,800,000. As at the disposal date, the net carrying value of those operating assets was RMB3,070,000 leading to a disposal gain of RMB2,730,000 (note 5) for the year ended 31 December 2016. The Group has received partial cash settlement of RMB3,800,000 in December 2016. The remaining cash consideration of RMB2,000,000 was received in full in June 2017.
- (ii) During the year ended 31 December 2016, a dividend of RMB70,000,000 was declared by Shijiazhuang Institute of Technology to Lionful Education (note 11) which was fully settled by offsetting with part of the amount due from Lionful Education as at 31 December 2016.
- (iii) In December 2016, the Group entered into a sale and purchase agreement with Lionful Education, pursuant to which, Lionful Education agreed to transfer certain education related operating assets for a total consideration of RMB168,944,000. Such assets included i) property, plant and equipment of RMB104,941,000 (note 13); and ii) a parcel of leasehold land of RMB64,003,000 (note 14). The consideration was fully settled by offsetting with part of the amount due from Lionful Education as at 31 December 2016.

(iv) Reconciliation of liabilities arising from financing activities during the Relevant Periods is as follows:

Year ended 31 December 2015

	Interest payables included in other payables and accruals	Interest-bearing bank and other borrowings	Amounts due to related parties	Total liabilities from financing activities
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	7,143	162,740	61,687	231,570
Changes from financing cash flows	(21,409)	(104,940)	(16,733)	(143,082)
Interest expense	14,600	—	—	14,600
At 31 December 2015	334	57,800	44,954	103,088

Year ended 31 December 2016

	Interest payables included in other payables and accruals	Interest-bearing bank and other borrowings	Amounts due to related parties	Accrued listing expenses included in other payables and accruals	Total liabilities from financing activities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	334	57,800	44,954	—	103,088
Changes from financing cash flows	(4,791)	(23,478)	(44,954)	(786)	(74,009)
Interest expense	4,693	—	—	—	4,693
Others	—	—	—	841	841
At 31 December 2016	236	34,322	—	55	34,613

Year ended 31 December 2017

	Interest payables included in other payables and accruals	Interest-bearing bank and other borrowings	Accrued listing expenses included in other payables and accruals	Total liabilities from financing activities
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	236	34,322	55	34,613
Changes from financing cash flows	(3,910)	784	(3,181)	(6,307)
Interest expense	3,843	—	—	3,843
Others	—	—	3,286	3,286
At 31 December 2017	169	35,106	160	35,435

30. RELATED PARTY TRANSACTIONS AND BALANCES

The Directors are of the view that the following individuals/companies are related parties that had material transactions or balances with the Group during the Relevant Periods.

(a) Name and relationship of related parties

Name	Relationship
Mr. Li	Chairman, one of the Controlling Shareholders of the Group, and the son-in-law of Ms. Luo
Ms. Luo	One of the Controlling Shareholders of the Group, and the mother-in-law of Mr. Li
Lionful Investment Holding	A company controlled by the Controlling Shareholders
Lionful Education	A company controlled by the Controlling Shareholders
Beijing Saintach	A company controlled by the Controlling Shareholders
Hebei Anlian	A company controlled by Mr. Li
北京壹加貳聯合不動產控股有限公司 Beijing 1+2 United Real Estate Holding Co., Ltd. (“Beijing 1+2 United Real Estate Holding”)	A company controlled by Mr. Li
石家莊壹加貳聯合房地產經紀有限公司 Shijiazhuang 1+2 United Real Estate Brokerage Co., Ltd. (“Shijiazhuang 1+2 United Real Estate Brokerage”)	A company controlled by Mr. Li
石家莊新天際企業管理諮詢有限公司 Shijiazhuang Saintach Business Consulting Co., Ltd. (“Shijiazhuang Saintach Business Consulting”)	A company controlled by Lionful Education
天津市瑞德信典當有限公司 Tianjin Ruidexin Pawn Co., Ltd. (“Tianjin Ruidexin”)	A company controlled by Lionful Education
University Town Management Company (note (i))	A company controlled by Lionful Education for certain time in the Relevant Periods
天津瑞安豐盛商業保理有限公司 Tianjin Ryan Fullcent Factoring Co., Ltd. (“Tianjin Ryan Fullcent”)	A company controlled by Lionful Education
河北新安宜商貿有限公司 Hebei Xinanyi Trade Co., Ltd. (“Hebei Xinanyi”) (note (ii))	A company controlled by Mr. Li for certain time in the Relevant Periods
河北安信聯行物業股份有限公司石家莊分公司 Hebei Ansince Property Management Co., Ltd. Shijiazhuang Branch (“Hebei Ansince Shijiazhuang Branch”)	A company controlled by Mr. Li
石家莊鼎域投資管理中心(有限合夥) Shijiazhuang Dingyu Investment Management Center Limited Partnership (“Dingyu Investment”) (note (iii))	A then limited partnership company managed by Ruian for certain time in the Relevant Periods

Notes:

- (i) Equity interest of University Town Management Company was disposed of to an independent third party during the year ended 31 December 2016. In the opinion of the Directors, upon completion of the renewal of business registration information of University Town Management Company on 13 October 2016, University Town Management Company was no longer regarded as a related party of the Group;
- (ii) Equity interest of Hebei Xinanyi was disposed of to an independent third party during the year ended 31 December 2015. In the opinion of the Directors, upon completion of the renewal of business registration information of Hebei Xinanyi on 15 July 2015, Hebei Xinanyi was no longer regarded as a related party of the Group;
- (iii) Dingyu Investment was a then limited liability company managed by Ruian and was deregistered during the year ended 31 December 2015.

The English names of the above companies represent the best effort made by the Directors to translate the Chinese names as these companies have not been registered with any official English names.

(b) Outstanding balances with related parties***Group***

As disclosed in the consolidated statements of financial position, the Group had outstanding balances with its related parties as at 31 December 2015, 2016 and 2017 as follows:

Amounts due from related parties

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Lionful Education	175,740	48,136	1,314
Hebei Anlian	15,000	—	—
Beijing Saintach	51,226	—	—
Shijiazhuang 1+2 United Real Estate Brokerage	2,800	—	—
Beijing 1+2 United Real Estate Holding	2,000	—	—
Shijiazhuang Saintach Business Consulting	1,997	—	—
Tianjin Ruidexin	299	—	—
Lionful Investment Holding	14	84	—
	<u>249,076</u>	<u>48,220</u>	<u>1,314</u>

As at 31 December 2017, the amount due from Lionful Education represented service fee receivable arising from the provision of college operation services. In the view of the Directors, the amount due is trade in nature and will be settled according to the term agreed mutually in the normal course of business.

Save as stated above, except for the amount due from Lionful Education as at 31 December 2017, amounts due from these related parties were unsecured, interest-free and had no fixed terms of repayment. The amount due from Lionful Education of RMB1,314,000 as at 31 December 2017 is repayable within one year.

Amounts due to related parties

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Tianjin Ryan Fullcent	38,378	—	—
University Town Management Company	6,576	—	—
	<u>44,954</u>	<u>—</u>	<u>—</u>

Amounts due to related parties were unsecured, interest-free and had no fixed terms of repayment.

Company

As disclosed in the statements of financial position, the Company had outstanding balances with its related parties as at 31 December 2016 and 2017 which are unsecured, interest free and have no fixed terms of repayment.

(c) Transactions with related parties

(1) Purchases of property, plant and equipment and a parcel of leasehold land

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Lionful Education	36	168,944	–
Beijing Saintach	65	–	–
University Town Management Company	–	79	–
	101	169,023	–

Purchases of property, plant and equipment and a parcel of leasehold land were made at prices mutually agreed between the Group and its related parties with reference to market value at dates of transfer.

(2) Sales of property, plant and equipment

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Lionful Education	95	–	–

Sales of property, plant and equipment were made at prices mutually agreed between the Group and its related party.

(3) Purchases of goods/services or leases of assets from related parties

	Notes	Year ended 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Hebei Xinanyi	(i)	1,489	–	–
University Town Management Company	(ii)	–	176	–
Hebei Ansine Shijiazhuang Branch	(iii)	750	487	494
Lionful Education	(iv)	–	–	2,750
		2,239	663	3,244

Notes:

- (i) Amounts mainly represented the purchases of food from Hebei Xinanyi for the kindergartens of the Group which were made at prices mutually agreed between the Group and Hebei Xinanyi.
- (ii) During the year ended 31 December 2016, the amount represented the purchases of food from University Town Management Company for the kindergartens of the Group which were made at prices mutually agreed between the Group and University Town Management Company.

- (iii) Details of the property rentals paid to and the fee paid for property management services provided by Hebei Ansince Shijiazhuang Branch are set out as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Property rentals	510	337	340
Property management services	240	150	154
	<u>750</u>	<u>487</u>	<u>494</u>

Properties leased from Hebei Ansince Shijiazhuang Branch were used as premises of the Group's kindergartens. Rental charges and service charges were based on prices mutually agreed between the Group and Hebei Ansince Shijiazhuang Branch.

- (iv) A lease agreement was entered into between the Group and Lionful Education on 1 July 2017, pursuant to which properties owned by Lionful Education that are used as the Group's library, student dormitory, infirmary and a training center are leased at an annual rate of RMB5,500,000. The lease agreement was cancellable and, hence, there was no operating lease commitment under this lease agreement as at 31 December 2017.

During the year ended 31 December 2017, the Group prepaid the rental of RMB5,500,000 for the initial year and amortised the prepaid rent on a straight line basis. As at 31 December 2017, the remaining prepaid rent was RMB2,750,000.

(d) Others

- (1) During the years ended 31 December 2013 and 2014, Lionful Investment Holding entered into certain entrustment loan arrangements with Bohai International Trust Co., Ltd. ("Bohai International"), a trust fund company.

Subsequent to the receipt of the entrustment loans from Bohai International, the Group transferred the entire entrustment loans to Lionful Education and Hebei Anlian for their uses. To compensate the Group for the interest it paid to Bohai International in relation to these entrustment loans, Lionful Education and Hebei Anlian paid the Group the same amount of interest which the Group had paid to Bohai International.

Such arrangements ceased during the year ended 31 December 2015 upon expiry of the relevant entrustment loan arrangements with Bohai International.

These entrustment loans were subject to interest at rates ranging from 14.75% to 16.73% per annum.

During the Relevant Periods, interest expenses incurred by the Group and interest income recorded by the Group in relation to these entrusment loans were detailed as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest expense	8,004	—	—
Interest income*	8,004	—	—
Business tax and surcharges	(448)	—	—
Interest income, net	<u>7,556</u>	<u>—</u>	<u>—</u>

* Amount received from related parties was stated before the deduction of the associated business tax and surcharges.

- (2) During the years ended 31 December 2015 and 2016, Lionful Education had provided Shijiazhuang Institute of Technology with the rights to use part of its leasehold land and certain items of property, plant and equipment free of charge (the “School Operating Assets”).

In December 2016, part of the School Operating Assets comprising a parcel of leasehold land and certain properties with an aggregate carrying amount of RMB168,944,000 were transferred to the Group. Details of the transfer are stated in notes 13 and 14 to the Historical Financial Information.

The remaining School Operating Assets, representing properties used for library, student dormitory, infirmary and a training center, were used by the Group free of charge up to 30 June 2017.

On 1 July 2017, the Group entered into a lease agreement with Lionful Education in respect of these properties, details of which are set out note 30 (c)(iv) to the Historical Financial Information.

- (3) During the Relevant Periods, the Group has provided college operation services to Lionful Education in connection with the operation of the West Campus of 石家莊鐵道大學四方學院 (“Shijiazhuang Tiedao University Sifang College”) (“Sifang College”). Lionful Education has been jointly operating the West Campus of Sifang College with 石家莊鐵道大學 (“Shijiazhuang Tiedao University”) (“Tiedao University”).

Pursuant to a cooperation agreement entered into between Lionful Education and Sifang College, Lionful Education is responsible for the substantive operation of the West Campus of Sifang College, which included but not limited to (i) the provision of teaching venues, meal services and accommodation for students of the West Campus of Sifang College; (ii) the implementation of the curriculum formulated by Sifang College and organisation of teaching activities and examinations for students of the West Campus of Sifang College; and (iii) the provision of assistance with the student administration of the West Campus of Sifang College. Pursuant to the joint schooling arrangements with Tiedao University, Lionful Education is entitled to 65% of the tuition revenue of the West Campus of Sifang College while Tiedao University is entitled to the remaining 35%.

Lionful Education subsequently outsourced such services to Shijiazhuang Institute of Technology taking into consideration the sufficient campus management capability of Shijiazhuang Institute of Technology. Pursuant to the agreement entered into between Lionful Education and Shijiazhuang Institute of Technology, the operation services covered in the agreement between Lionful Education and Sifang College are delivered by Shijiazhuang Institute of Technology which is entitled to receive a service fee from Lionful Education in return. In the opinion of the Directors, the West Campus of Sifang College’s academic education services are in substance provided by Shijiazhuang Institute of Technology. In this regard, the total service fees charged by Shijiazhuang Institute of Technology equal to the 65% of the tuition generated by the West Campus of Sifang College which Lionful Education is entitled to receive.

Details of the college operation service income from Lionful Education for each of the Relevant Periods are as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB’000	RMB’000	RMB’000
College operation service income	17,888	17,970	18,059

Other than the college operation service stated above, under the relevant agreements, Shijiazhuang Institute of Technology is responsible for providing accommodation services to the students enrolled by the West Campus of Sifang College. Accommodation service fees are collected directly from the students and are recognised as income for each of the Relevant Periods as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Student accommodation service income^^	1,765	1,741	1,777

^^ Included as part of the college operation service income of the Group as disclosed in note 5 to the Historical Financial Information.

- (4) During the Relevant Periods, certain bank and other borrowings of the PRC Operating Entities are secured by the assets of or guaranteed by certain related parties of the Group. Details of these securities and guarantees are disclosed in note 21 to the Historical Financial Information.
- (5) During the years ended 31 December 2015 and 2016, canteens of Shijiazhuang Institute of Technology were outsourced and operated by University Town Management Company free of charge. As stated above, University Town Management Company ceased to be a related party of the Group from 13 October 2016, the Group began to charge University Town Management Company an annual outsourcing fee of RMB1,942,000 from 1 January 2017.
- (6) The Group entered into an entrustment loan arrangement through a local bank with Dingyu Investment during the year ended 31 December 2014, pursuant to which, an unsecured entrustment loan of RMB17,780,000 was provided to the Group which was interest-bearing at a rate 16% per annum and was repayable within one year. The entrustment loan was repaid by the Group during the year ended 31 December 2015.

Interest expense recognised in profit or loss in connection with the entrustment loan arrangement for each of the Relevant Periods is as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Interest expense	1,399	—	—

- (7) During the year ended 31 December 2015, Beijing Saintach transferred its 4.9% equity interest in Luquan RC to the Group for a cash consideration of RMB14,731,000. In January 2016, such an investment was transferred by the Group to University Town Management Company at cost of RMB14,731,000. Details of these transactions are contained in note 16 to the Historical Financial Information.
- (8) During the Relevant Periods, certain trademarks owned by Lionful Investment Holding were used by the Group free of charge.

(e) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	432	450	709
Pension scheme contributions	164	150	244
	<u>596</u>	<u>600</u>	<u>953</u>

Details of directors' remuneration are included in note 8 to the Historical Financial Information.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the Relevant Periods are as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Available-for-sale investment			
Available-for-sale investment	<u>14,731</u>	<u>—</u>	<u>—</u>

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Financial assets – loans and receivables			
Trade receivables	888	608	1,179
Amounts due from related parties	249,076	48,220	1,314
Financial assets included in prepayments, deposits and other receivables	36,671	8,331	8,372
Term deposits	—	—	70,000
Cash and bank balances	<u>13,612</u>	<u>5,320</u>	<u>39,864</u>
	<u>300,247</u>	<u>62,479</u>	<u>120,729</u>

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Financial liabilities at amortised cost			
Amounts due to related parties	44,954	—	—
Financial liabilities included in other payables and accruals	17,185	26,340	29,265
Interest-bearing bank and other borrowings	<u>57,800</u>	<u>34,322</u>	<u>35,106</u>
	<u>119,939</u>	<u>60,662</u>	<u>64,371</u>

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, term deposits, trade receivables, amounts due from related parties, financial assets included in prepayments, deposits and other receivables, amounts due to related parties and short-term interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the non-current financial liabilities is as follows:

	As at 31 December	
	2015	2015
	Carrying amount	Fair value
	RMB'000	RMB'000
Interest-bearing bank and other borrowings – non current	19,700	19,700

	As at 31 December	
	2016	2016
	Carrying amount	Fair value
	RMB'000	RMB'000
Interest-bearing bank and other borrowings – non current	8,106	8,106

	As at 31 December	
	2017	2017
	Carrying amount	Fair value
	RMB'000	RMB'000
Interest-bearing other borrowings – non current	721	721

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values of the non-current interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2015, 2016 and 2017 was assessed to be insignificant.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

As at 31 December 2015

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	57,800	—	57,800

As at 31 December 2016

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	34,322	—	34,322

As at 31 December 2017

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	—	35,106	—	35,106

The Group did not have any financial assets measured at fair value as at 31 December 2015, 2016 and 2017.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings, cash and bank balances and term deposits. The Group has various other financial assets and liabilities such as amounts due from related parties, trade receivables, deposits and other receivables, amounts due to related parties and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

As at 31 December 2015, 2016 and 2017, approximately 66.1%, 44.6%, and 20.2% of the Group's interest-bearing and other borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

Year ended 31 December 2015	Increase/(decrease) in basis points	(Decrease)/increase in profit before tax and equity
		RMB'000
RMB	50	(98)
RMB	(50)	98
Year ended 31 December 2016	Increase/(decrease) in basis points	(Decrease)/increase in profit before tax and equity
		RMB'000
RMB	50	(95)
RMB	(50)	95
Year ended 31 December 2017	Increase/(decrease) in basis points	(Decrease)/increase in profit before tax and equity
		RMB'000
RMB	50	(140)
RMB	(50)	140

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposure as at the end of each of the Relevant Periods does not reflect the exposure during the respective years.

Credit risk

It is the Group's policy that all schools which the Group has cooperation with and students who wish to receive the Group's services on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debt is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, term deposits, amounts due from related parties, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group only provides services with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty or by service nature. There are no significant concentrations of credit risk regarding the trade receivables of the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

As at 31 December 2017, the Group had net current liabilities of RMB24,614,000. In the opinion of the Directors, the Group's liquidity is not materially impacted by its net current liabilities position taking into account the factors stated in note 2.2 to the Historical Financial Information.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

As at 31 December 2015					
	On demand	Within 1 year	1 to 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties . . .	44,954	–	–	44,954	44,954
Financial liabilities included in other payables and accruals	–	17,185	–	17,185	17,185
Interest-bearing bank and other borrowings	–	41,926	21,280	63,206	57,800
	<u>44,954</u>	<u>59,111</u>	<u>21,280</u>	<u>125,345</u>	<u>119,939</u>
As at 31 December 2016					
	On demand	Within 1 year	1 to 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	–	26,340	–	26,340	26,340
Interest-bearing bank and other borrowings	–	29,300	8,510	37,810	34,322
	<u>–</u>	<u>55,640</u>	<u>8,510</u>	<u>64,150</u>	<u>60,662</u>

As at 31 December 2017					
	On demand	Within 1 year	1 to 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	–	29,265	–	29,265	29,265
Interest-bearing bank and other borrowings	–	35,410	750	36,160	35,106
	–	64,675	750	65,425	64,371

Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business.

The Directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debt. The Group's overall strategy remains unchanged from prior years.

The Group monitors capital using a debt-to-asset ratio which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of each of the Relevant Periods were as follows:

As at 31 December			
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Total liabilities	201,512	149,617	159,820
Total assets	346,921	261,544	317,411
Debt-to-asset ratios	58%	57%	50%

34. EVENTS AFTER THE REPORTING PERIOD

There is no significant event took place subsequent to 31 December 2017.

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included for information purposes only. The pro forma financial information should be read in conjunction with the "Financial Information" section in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets has been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets as of 31 December 2017 as if it had taken place on 31 December 2017.

The unaudited pro forma adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of 31 December 2017 or any future dates. It is prepared based on our consolidated net tangible assets as of 31 December 2017 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below.

	Consolidated net tangible assets attributable to owners of the Company as of 31 December 2017	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ (Note 4)
Based on an Offer Price of HK\$0.79 per Share	156,481	208,420	364,901	0.30	0.37
Based on an Offer Price of HK\$1.13 per Share	156,481	302,640	459,121	0.38	0.47

Notes:

- (1) The consolidated net tangible assets attributable to owners of the Company as of 31 December 2017 is extracted from "Appendix I – Accountants' Report", which is based on the audited consolidated equity attributable to owners of the Company as of 31 December 2017 of approximately RMB157,591,000 less intangible assets as of 31 December 2017 of approximately RMB1,110,000.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$0.79 per Share or HK\$1.13 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.8092 prevailing on 4 May 2018.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 1,200,000,000 Shares in issue immediately following the completion of the Global Offering and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.8092 prevailing on 4 May 2018.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our Company's reporting accountant, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of China 21st Century Education Group Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of China 21st Century Education Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2017 and related notes as set out on page II-1 of the prospectus dated 15 May 2018 (the "Prospectus") issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described on page II-1 of Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 31 December 2017 as if the transaction had taken place at 31 December 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2017, on which an accountants' report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

15 May 2018

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer and consultant, in connection with its valuation as at 31 March 2018 of the property interest of Shijiazhuang Institute of Technology.



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

15 May 2018

The Board of Directors
China 21st Century Education Group Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Dear Sirs,

Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("**JLL**" or "**we**") is instructed by China 21st Century Education Group Limited (the "**Company**") to provide valuation service on the property interest held by Shijiazhuang Institute of Technology (a consolidated affiliated entity of the Company through Structured Contracts) in the People's Republic of China (the "**PRC**"). We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market value of the property interest as at 31 March 2018 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the buildings of the property and the particular location in which it is situated, there are unlikely to be relevant market comparable sales readily available, the relevant property interest has been valued by the Cost Approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by Shijiazhuang Institute of Technology and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including Real Estate Certificate relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Jingtian & Gongcheng concerning the validity of the property interest in the PRC.

We have no reason to doubt the truth and accuracy of the information provided to us by Shijiazhuang Institute of Technology. We have also sought confirmation from Shijiazhuang Institute of Technology that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive at an informed view, and we have no reason to suspect that any material information has been withheld.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

The site inspection was carried out on 7 December 2016 and re-inspection was carried out on 8 May 2018 by Ms. Gloria Wang who is a qualified China Real Estate Appraiser and has 10 years' property valuation experience in the PRC.

All monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Director

Note:

Eddie T. W. Yiu is a Chartered Surveyor who has 24 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUE

Property interest held and occupied by Shijiazhuang Institute of Technology in the PRC

Property	Market value in existing state as at 31 March 2018
	RMB
Towers A, B, C and D of Shijiazhuang Institute of Technology located at Hengshan Village Luquan Development Area Shijiazhuang City Hebei Province The PRC	No commercial value (see note below)
Total:	Nil

Note:

1. We have attributed no commercial value to the property as the respective land use rights cannot be freely transferred by Shijiazhuang Institute of Technology. However, for reference purpose, we are of the opinion that the market value of the property as at the valuation date would be RMB170,066,000 assuming the property could be freely transferred.

VALUATION CERTIFICATE

Property interest held and occupied by Shijiazhuang Institute of Technology in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at the valuation date RMB
Towers A, B, C and D of Shijiazhuang Institute of Technology located at Hengshan Village Luquan Development Area Shijiazhuang City Hebei Province The PRC	Shijiazhuang Institute of Technology (the “College”) is a private college comprising 22 buildings with a total gross floor area of approximately 170,000 sq.m., which occupy a parcel of land with a site area of approximately 284,459 sq.m. The subject property comprises four teaching buildings known as Towers A, B, C and D in the College and the apportioned land on which the buildings are erected. The buildings of the property were completed in 2008 and have a total gross floor area of approximately 36,154.54 sq.m. Shijiazhuang Institute of Technology and Hebei Lionful Education Investment Co., Ltd. jointly held the land use rights of the land, which have been granted for a term expiring on 17 April 2052 for educational use.	The property is currently occupied by Shijiazhuang Institute of Technology for education purpose.	No commercial value

Notes:

1. Pursuant to a sale & purchase contract entered into between Hebei Lionful Education Investment Co., Ltd. (河北廿一世紀教育投資有限公司 “**Lionful Education**”, a connected party of the Company) and Shijiazhuang Institute of Technology, Towers A, B, C and D in Shijiazhuang Institute of Technology with a total gross floor area of approximately 36,154.54 sq.m. and the respective proportional land use rights of the land parcel were purchased by Shijiazhuang Institute of Technology at a total consideration of RMB168,943,955.
2. Pursuant to a Real Estate Title Certificate – Ji (2016) Lu Quan Qu Bu Dong Chan Quan Di No. 0004521, the buildings (Towers A, B, C and D) of the property with a total gross floor area of approximately 36,154.54 sq.m. are owned by Shijiazhuang Institute of Technology. The land use rights of a parcel of land with a site area of approximately 284,459 sq.m. have been granted to Lionful Education and Shijiazhuang Institute of Technology jointly for a term expiring on 17 April 2052 for educational use.
3. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, inter alia, the following:
 - a. Shijiazhuang Institute of Technology has obtained the Real Estate Title Certificate and legally owned the land use rights of the land parcel of the College jointly with Lionful Education. According to an agreement between Lionful Education and Shijiazhuang Institute of Technology, disposal of the land use rights related to the aforesaid state-owned construction land is subject to unanimous written consent by both Lionful Education and Shijiazhuang Institute of Technology. As such, neither Lionful Education nor Shijiazhuang Institute of Technology is entitled to dispose of their land use rights without the prior written consent from the other party;
 - b. Shijiazhuang Institute of Technology has legally owned the building ownership rights of the property; and
 - c. According to relevant PRC laws, schools, kindergartens and other education facilities held by public institutions/organizations for public welfare purposes could not be mortgaged.

4. According to the legal opinion mentioned in note 3, we have attributed no commercial value to the property as the respective land use rights cannot be freely transferred by Shijiazhuang Institute of Technology. However, for reference purpose, we are of the opinion that the market value of the property as at the valuation date would be RMB170,066,000 assuming the property could be freely transferred.
5. The property contributes a significant portion of revenue to the Company, we are of the view that the property is the material property held by the Company:

Details of the material property

(a)	General description of location of the property	:	The property is located at the western side of Huotong Road, in Luquan Development Area of Shijiazhuang City. It is near the Jingkun Highway and about one kilometer away from the Qingyin Highway. There are several industrial buildings and schools in the surrounding area.
(b)	Details of encumbrances, liens, pledges, mortgages against the property	:	The property is not subject to any mortgage or pledges.
(c)	Environmental Issue	:	No environment impact assessment has been carried out.
(d)	Details of investigations, notices, pending litigation, breaches of law or title defects	:	Nil
(e)	Future plans for construction, renovation, improvement or development of the property	:	As advised by the Company, there is no plan for new major development in the next 12 months from the date of this document.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on September 20, 2016 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of the Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on May 4, 2018 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Stock Exchange or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees

consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally,

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the

APPENDIX IV SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised

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without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) *Accounts and audit*

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the

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Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

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Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully

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paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

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

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

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

The undertaking for the Company is for a period of twenty years from October 11, 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or 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.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice

objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on September 20, 2016. Our Company has been registered as a non-Hong Kong company under Part XVI of the Companies Ordinance on February 23, 2017 and our Company's principal place of business in Hong Kong is at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong. Ms. Wong Sau Ping at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, a Hong Kong resident, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and the articles of association. A summary of the relevant aspects of the Companies Law and certain provisions of Articles of Association are set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

As of the date of the incorporation of our Company, the authorized share capital of our Company was HK\$390,000 divided into 39,000,000 shares of HK\$0.01 each. On the same day, one fully-paid Share was issued to Sharon Pierson and was further transferred to Sainange Holdings on the same day. On the same day, additional 8,895 and 1,104 Shares were allotted and issued to Sainange Holdings and Sainray Limited, respectively, credited as fully paid.

Pursuant to the written resolutions of all Shareholders on May 4, 2018, the authorized share capital of our Company was increased from HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each to HK\$30,000,000 divided into 3,000,000,000 Shares of HK\$0.01 each by the creation of 2,961,000,000 Shares of HK\$0.01 each, which shall rank *pari passu* in all respects with the Shares in issue as of the date of the resolution.

Immediately following completion of the Global Offering and the Capitalization Issue and assuming that the Over-allotment Option is not exercised and without taking into account any options that may be issued under the Share Option Scheme, the authorized share capital of our Company will be HK\$30,000,000 divided into 3,000,000,000 Shares, of which 1,200,000,000 Shares will be issued fully paid or credited as fully paid, and 1,800,000,000 Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, 1,254,000,000 Shares will be issued as fully paid or credited as fully paid, and 1,746,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option, the options that may be granted under the Share Option Scheme or the general mandate to issue Shares referred to in “– 4. Written resolutions of our Shareholders passed on May 4, 2018” in this Appendix, the Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries and consolidated affiliated entities

Our Company's subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in "B. Corporate Reorganization" in this Appendix and "History and Corporate Structure" in this prospectus, the following changes in share capitals and changes in shareholdings of certain subsidiaries and consolidated affiliated entities of our Company took place during the two years immediately preceding the date of this prospectus:

Hebei Saintach

On October 31, 2016, the registered capital of Hebei Saintach decreased by RMB1,500,000 to RMB10,000,000.

Huixuan Tutorial School

Huixuan Tutorial School was established on August 3, 2016 with a capital of RMB300,000.

High-tech Zone Tutorial School

High-tech Zone Tutorial School was established on December 19, 2016 with a capital of RMB300,000.

Saved as disclosed above, there has been no other alteration in the share capital of any of the subsidiaries of our Company within two years immediately preceding the date of this prospectus.

4. Written resolutions of our Shareholders passed on May 4, 2018

Pursuant to the written resolutions of all Shareholders entitled to vote at general meetings of our Company, which were passed on May 4, 2018:

- (a) the authorized share capital of our Company was increased from HK\$390,000 divided into 39,000,000 Shares of HK\$0.01 each to HK\$30,000,000 divided into 3,000,000,000 Shares of HK\$0.01 each by the creation of 2,961,000,000 Shares of HK\$0.01 each, which shall rank *pari passu* in all respects with the Shares in issue as of the date of the resolution;
- (b) our Company approved and adopted the Memorandum of Association;
- (c) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, on the Main Board, our Shares in issue and to be issued (pursuant to the Capitalization Issue, the Global Offering, the Over-allotment Option and the Share Option Scheme) as mentioned in this prospectus; (ii) the Offer Price having been determined between the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters); (iii) the execution and delivery of the Hong Kong Underwriting Agreement on or before the dates as referred to this prospectus; and (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) by the Sole Global Coordinator (on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:
 - (i) our Company approved and adopted the Articles of Association with effect from the Listing Date;

- (ii) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms;
- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in “F. Share Option Scheme” below in this Appendix, were approved and adopted, and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;
- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by our Shareholders in general meeting, an aggregate number of Shares not exceeding 20% of the total number of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering but before any exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within the next annual general meeting of our Company is required by the Articles of Association or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meetings of our Company varying or revoking the authority given to the Directors, whichever occurs first; For the purpose of this paragraph, “Rights Issue” means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognized regulatory body or any stock exchange applicable to our Company);

- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which was recognized by the SFC and the Stock Exchange for this purpose, such number of Shares not exceeding 10% of the total number of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering but before the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, until the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by our Shareholders in general meeting of our Company varying or revoking the authority given to the Directors, whichever occurs first;
- (vi) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (c)(iv) above by the addition to an aggregate number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an aggregate number of Shares repurchased by our Company pursuant to paragraph (c)(v) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Capitalization Issue and the Global Offering but before the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme was approved;
- (vii) conditional on the share premium account of our Company being credited as a result of the Global Offering, the sum of HK\$8,399,900 be capitalized and be applied in paying up in full at par 839,990,000 Shares for allotment and issue to our Shareholders whose names were on the register of members of our Company immediately prior to the Global Offering and the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respect with the existing issued Shares; and
- (viii) the ratification of the appointment of Directors by the Board was approved.

Each of the general mandates referred to in paragraphs (c)(iv), (c)(v) and (c)(vi) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (2) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (3) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of our Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on May 4, 2018 by all our Shareholders, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the total number of Shares in issue or to be issued immediately following completion of the Global Offering (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), further details of which have been described above in "– 4. Written resolutions of our Shareholders passed on May 4, 2018" in this Appendix.

(ii) Source of funds

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with the Articles of Association, the Listing Rules and the Companies Law. We are not permitted to repurchase the Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Funding of repurchases

In repurchasing the Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as it would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No core connected person (as defined in the Listing Rules) has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANIZATION

In order to streamline the corporate structure and rationalize our corporate structure for the Listing, our Group underwent the Corporate Reorganization. Please see "History and Corporate Structure – Corporate Reorganization" in this prospectus for details.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:

- (1) the business cooperation agreement dated October 17, 2017, entered into among Li Yunong (李雨濃), Luo Xinlan (羅心蘭), each of our PRC Operating Entities and Sheng Dao Xiang Cheng, pursuant to which Sheng Dao Xiang Cheng shall provide technical service, management service and consulting service necessary for the private education business to our PRC Operating Entities pursuant to the Structured Contracts, and in return, our PRC Operating Entities shall make payments pursuant to the Structured Contracts;

- (2) the exclusive technical service and management consultancy agreement dated October 17, 2017, entered into by and among our PRC Operating Entities and Sheng Dao Xiang Cheng, pursuant to which Sheng Dao Xiang Cheng, as the exclusive service provider of our PRC Operating Entities, agreed to provide exclusive technical services to our PRC Operating Entities related to their business and to provide exclusive management consultancy services to our PRC Operating Entities related to their business. In consideration of the technical and management consultancy services provided by Sheng Dao Xiang Cheng, our PRC Operating Entities agreed to pay Sheng Dao Xiang Cheng a service fee equal to (i) as for Zerui Education, Hebei Saintach and Shijiazhuang Saintach, all of their respective amount of net income (after deducting operation costs), and (ii) as for Shijiazhuang Institute of Technology, Saintach Kindergartens and Saintach Tutorial Schools, all of their respective amount of net income (after deducting schooling costs, social donated capital (if any), state funded capital (if any), the legally compulsory development fund of the respective school (if required by the law) and all necessary costs and expenses), or a lesser amount determined by Sheng Dao Xiang Cheng at its absolute discretion;
- (3) the exclusive call option agreement dated October 17, 2017, entered into among Li Yunong (李雨濃), Hebei Saintach, Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten, Qiaoxi Tutorial School and Sheng Dao Xiang Cheng, pursuant to which, Li Yunong (李雨濃) and Hebei Saintach have irrevocably granted Sheng Dao Xiang Cheng or its designated person the exclusive right to purchase all or part of the school sponsor's interest in Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School at RMB1.00 or the lowest price permitted under the PRC laws and regulations;
- (4) the exclusive call option agreement dated October 17, 2017, entered into among Li Yunong (李雨濃), Luo Xinlan (羅心蘭), our PRC Operating Entities (excluding Qiaoxi Tutorial School) and Sheng Dao Xiang Cheng, pursuant to which, Li Yunong (李雨濃), Luo Xinlan (羅心蘭) and Zerui Education have irrevocably granted Sheng Dao Xiang Cheng or its designated person the exclusive right to purchase all or part of the equity interest in Zerui Education, Shijiazhuang Saintach and Hebei Saintach at RMB1.00 or the lowest price permitted under the PRC laws and regulations;
- (5) the equity pledge agreement dated October 17, 2017, entered into among Li Yunong (李雨濃), Luo Xinlan (羅心蘭), Zerui Education and Sheng Dao Xiang Cheng, pursuant to which, Li Yunong (李雨濃) and Luo Xinlan (羅心蘭) unconditionally and irrevocably pledged and granted security interests over all of his/her equity interest in Zerui Education to Sheng Dao Xiang Cheng as security for performance of the Structured Contracts;
- (6) the equity pledge agreement dated October 17, 2017, entered into among Li Yunong (李雨濃), Zerui Education, Hebei Saintach and Sheng Dao Xiang Cheng, pursuant to which, Li Yunong (李雨濃) and Zerui Education unconditionally and irrevocably pledged and granted security interests over all of his/its equity interest in Hebei Saintach to Sheng Dao Xiang Cheng as security for performance of the Structured Contracts;
- (7) the equity pledge agreement dated October 17, 2017, entered into among Zerui Education, Shijiazhuang Saintach and Sheng Dao Xiang Cheng, pursuant to which, Zerui Education unconditionally and irrevocably pledged and granted security interests over all of its equity interest in Shijiazhuang Saintach to Sheng Dao Xiang Cheng as security for performance of the Structured Contracts;
- (8) the school sponsors' and directors' rights entrustment agreement dated October 17, 2017, entered into among Li Yunong (李雨濃), our PRC Operating Entities and the respective directors of Shijiazhuang Institute of Technology, Saintach Kindergartens and Saintach Tutorial

Schools and Sheng Dao Xiang Cheng, pursuant to which, (i) each of Zerui Education, Li Yunong (李雨濃), Hebei Saintach and Shijiazhuang Saintach has irrevocably authorized and entrusted Sheng Dao Xiang Cheng or its designated person to exercise all his/its rights as school sponsor of each of our schools to the extent permitted by the PRC laws; and (ii) each of directors or council members of the schools has irrevocably authorized and entrusted Sheng Dao Xiang Cheng's designated person to exercise all his/her rights as directors or council members and to the extent permitted by the PRC laws;

- (9) the shareholders' rights entrustment agreement dated October 17, 2017, entered into among Li Yunong (李雨濃), Luo Xinlan (羅心蘭), Zerui Education, Hebei Saintach, Shijiazhuang Saintach and Sheng Dao Xiang Cheng, pursuant to which each of Li Yunong (李雨濃), Luo Xinlan (羅心蘭) and Zerui Education (as the case may be) has irrevocably authorized and entrusted Sheng Dao Xiang Cheng or its designated person to exercise all his/her/its rights as shareholders of each of Zerui Education, Hebei Saintach and Shijiazhuang Saintach to the extent permitted by the PRC laws;
- (10) the shareholder's power of attorney dated October 17, 2017 executed by Li Yunong (李雨濃) authorizing and entrusting Sheng Dao Xiang Cheng as his appointee to act on his behalf to exercise or delegate the exercise of all the rights as shareholders of Zerui Education and Hebei Saintach to the extent permitted by the PRC laws;
- (11) the shareholder's power of attorney dated October 17, 2017 executed by Luo Xinlan (羅心蘭) authorizing and entrusting Sheng Dao Xiang Cheng as her appointee to act on her behalf to exercise or delegate the exercise of all the rights as shareholders of Zerui Education to the extent permitted by the PRC laws;
- (12) the shareholder's power of attorney dated October 17, 2017 executed by Zerui Education authorizing and entrusting Sheng Dao Xiang Cheng as its appointee to act on its behalf to exercise or delegate the exercise of all the rights as shareholders of Hebei Saintach and Shijiazhuang Saintach to the extent permitted by the PRC laws;
- (13) the school director's Power of Attorney dated October 17, 2017 executed by each of the directors or council members of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens (Li Yunong (李雨濃), Liu Zhanjie (劉占杰), Ma Yunjian (馬運建), Liu Cai (劉才), Ren Caiyin (任彩銀), Zhang Yuan (張媛), Wang Lijing (王利靜), Zhang Yongbin (張永斌), Lu Hong (盧紅), Jia Wen (賈雯), Shi Juan (史娟), Li Ru (李茹), Li Yingying (李嬰嬰), Han Xiaoyan (韓曉燕), Jiang Haiyan (姜海燕), Xiong Chunyan (熊春燕), Wang Lihua (王麗華), Li Hui (李輝), Wang Wenrong (王文榮), Liu Hongwei (劉宏煒), Diao Lina (刁麗娜), Xie Hongyan (謝紅豔) and Wang Yongsheng (王永生)) authorizing and entrusting director or the designated person of Sheng Dao Xiang Cheng as his/her appointee to act on his/her behalf to exercise all his/her rights as directors or council members of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens to the extent permitted by the PRC laws;
- (14) the school sponsor's power of attorney dated October 17, 2017 executed by Li Yunong (李雨濃) authorizing and entrusting Sheng Dao Xiang Cheng as his appointee to act on his behalf to exercise or delegate the exercise of all his rights as school sponsor of Qiaoxi Tutorial School, Fukang Kindergarten, Tianshan Kindergarten and Lidu Kindergarten to the extent permitted by the PRC laws;

- (15) the school sponsor's power of attorney dated October 17, 2017 executed by Zerui Education authorizing and entrusting Sheng Dao Xiang Cheng as its appointee to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of Shijiazhuang Institute of Technology to the extent permitted by the PRC laws;
- (16) the school sponsor's power of attorney dated October 17, 2017 executed by Hebei Saintach authorizing and entrusting Sheng Dao Xiang Cheng as its appointee to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of Saintach Kindergartens to the extent permitted by the PRC laws;
- (17) the school sponsor's power of attorney dated October 17, 2017 executed by Shijiazhuang Saintach authorizing and entrusting Sheng Dao Xiang Cheng as its appointee to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of Saintach Tutorial Schools (excluding Qiaoxi Tutorial School) to the extent permitted by the PRC laws;
- (18) the spouse undertaking dated October 17, 2017 executed by Cao Yang ((曹揚), the spouse of Li Yunong (李雨濃)) in favor of Sheng Dao Xiang Cheng, irrevocably acknowledging and consenting the signing of the Structured Contracts by Li Yunong (李雨濃);
- (19) the spouse undertaking dated October 17, 2017 executed by Cao Jide ((曹際德), the spouse of Luo Xinlan (羅心蘭)) in favor of Sheng Dao Xiang Cheng, irrevocably acknowledging and consenting the signing of the Structured Contracts by Luo Xinlan (羅心蘭);
- (20) the undertaking dated May 4, 2018 executed by Li Yunong (李雨濃) in favor of our Company, pursuant to which Li Yunong (李雨濃) undertook to: (a) continue to maintain his Chinese nationality and citizenship for as long as he holds a controlling interest in our Company; (b) maintain control over our Company for the purposes of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated) and related laws applicable to our Group in relation to domestic investment when they become effective, or otherwise procure the transferee(s) who will become the new PRC controlling shareholder of our Company to provide an undertaking in the same terms and conditions as the one offered by him to our Company; (c) maintain the shares held by the ultimate control persons who are PRC citizens account for not less than 50% of the issued share capital of our Company including after the issuance of any new shares by Company. Further, upon completion of the Listing, the Shares held by Li Yunong (李雨濃) (through Sainange Holdings) and his subsequent transferee(s) will be held in the form of physical certificates; (d) obtain prior written consent of our Company as to the identity of the transferee(s) before Li Yunong (李雨濃) disposes of, transfers or create security interest over the controlling interest in our Company that he beneficially owns, as a result of which Li Yunong (李雨濃) will cease to have control over our Company. Prior to any such disposal, transfer or other transactions which may result in Li Yunong (李雨濃) ceasing to have control over our Company for the purposes of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated), Li Yunong (李雨濃) shall demonstrate to the satisfaction of our Company and the Stock Exchange that the Structured Contracts will remain a domestic investment for the purpose of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated) and related laws applicable to our Group in relation to domestic investment; and (e) instruct the relevant share registrar not to register any subscription, purchase and transfer of shares unless and until our Company is satisfied that the same will not result in Li Yunong (李雨濃) ceasing to have control over our Company or any other breach of the undertaking;

- (21) the undertaking dated May 4, 2018 executed by Luo Xinlan (羅心蘭) in favor of our Company, pursuant to which Luo Xinlan (羅心蘭) undertook to: (a) continue to maintain her Chinese nationality and citizenship for as long as she holds a controlling interest in our Company; (b) maintain control over our Company for the purposes of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated) and related laws applicable to our Group in relation to domestic investment when they become effective, or otherwise procure the transferee(s) who will become the new PRC controlling shareholder of our Company to provide an undertaking in the same terms and conditions as the one offered by her to our Company; (c) maintain the shares held by the ultimate control persons who are PRC citizens account for not less than 50% of the issued share capital of our Company including after the issuance of any new shares by Company. Further, upon completion of the Listing, the Shares held by Luo Xinlan (羅心蘭) (through Sainray Limited) and her subsequent transferee(s) will be held in the form of physical certificates; (d) obtain prior written consent of our Company as to the identity of the transferee(s) before Luo Xinlan (羅心蘭) disposes of, transfers or create security interest over the controlling interest in our Company that he or she beneficially owns, as a result of which Luo Xinlan (羅心蘭) will cease to have control over our Company. Prior to any such disposal, transfer or other transactions which may result in Luo Xinlan (羅心蘭) ceasing to have control over our Company for the purposes of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated), Luo Xinlan (羅心蘭) shall demonstrate to the satisfaction of our Company and the Stock Exchange that the Structured Contracts will remain a domestic investment for the purpose of the Draft Foreign Investment Law (together with all its subsequent amendments or updates, as promulgated) and related laws applicable to our Group in relation to domestic investment; and (e) instruct the relevant share registrar not to register any subscription, purchase and transfer of shares unless and until our Company is satisfied that the same will not result in Luo Xinlan (羅心蘭) ceasing to have control over our Company or any other breach of the undertaking;
- (22) the Deed of Indemnity;
- (23) a cornerstone investment agreement dated May 9, 2018 entered into by and among our Company, MinSheng Royal Asset Management CO., LTD. (民生加銀資產管理有限公司) (on behalf of the MinSheng Royal Asset Management 21st Century Education Group HK IPO Cornerstone Shares Investment Specific Asset Management Plan (民生加銀資管21世紀教育集團港股IPO基石份額投資專項資產管理計劃)), the Sole Global Coordinator and Head & Shoulders Securities Limited, pursuant to which MinSheng Royal Asset Management CO., LTD. (on behalf of the MinSheng Royal Asset Management 21st Century Education Group HK IPO Cornerstone Shares Investment Specific Asset Management Plan (民生加銀資管21世紀教育集團港股IPO基石份額投資專項資產管理計劃)) agreed to subscribe for our Shares in an aggregate amount of HK\$50.5 million at the Offer Price;
- (24) a cornerstone investment agreement dated May 9, 2018 entered into by and among our Company, Xiamen Chanfund Century Equity Investment, LP (廈門誠豐世紀股權投資合夥企業(有限合夥)), the Sole Global Coordinator and Morton Securities Limited, pursuant to which Xiamen Chanfund Century Equity Investment, LP agreed to subscribe for our Shares in an aggregate amount of HK\$50.0 million at the Offer Price;
- (25) a cornerstone investment agreement dated May 10, 2018 entered into by and among our Company, Green Asia Equity SP, the Sole Global Coordinator and First Capital Securities Limited, pursuant to which Green Asia Equity SP agreed to subscribe for our Shares in an aggregate amount of HK\$40.0 million at the Offer Price; and
- (26) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

Trademarks

As at the Latest Practicable Date, we have registered seven trademarks in the PRC which, in the opinion of our Directors, are material to our business:

No.	Trademark	Registered Owner	Place of registration	Class	Registration number	Expiration date
1		Hebei Saintach	PRC	41	8440709	July 13, 2021
2	SAINTACH	Hebei Saintach	PRC	41	8440701	July 13, 2021
3		Hebei Saintach	PRC	41	8440686	July 13, 2021
4	新天际洛克	Hebei Saintach	PRC	41	10663438	May 20, 2023
5	新天际唯思	Hebei Saintach	PRC	41	10663437	May 20, 2023
6	CSMI	Hebei Saintach	PRC	41	22206848	January 27, 2028
7	Saintach Montessori International	Hebei Saintach	PRC	41	21217195	November 6, 2027

As of the Latest Practicable Date, we have applied for one trademark in the PRC which, in the opinion of our Directors, are material to our business:

Trademark	Applicant	Place where application is made	Class	Application number	Application date
新天际	Hebei Saintach	PRC	41	22841997	February 21, 2017

As of the Latest Practicable Date, we have registered one trademark in Hong Kong which, in the opinion of our Directors are material to our business:

Trademark	Registered Owner	Place of registration	Class	Registration number	Expiration date
 LIONFUL EDUCATION 21世纪教育	Shijiazhuang Institute of Technology	Hong Kong	41	303846024	July 21, 2026

Note: International classification of goods and services.

Domain Names

As of the Latest Practicable Date, we have registered the following domain names which, in the opinion of our Directors are material to our business:

Registrant	Domain name	Date of registration	Expiration date
Hebei Saintach	saintachkids.com	June 12, 2014	June 12, 2019
Hebei Saintach	saintachkids.cn	June 20, 2014	June 20, 2019
Hebei Saintach	saintachkids.com.cn	June 12, 2014	June 12, 2019
Hebei Saintach	saintachkids.net	June 12, 2014	June 12, 2019
Shijiazhuang Institute of Technology	sjzlg.com	September 29, 2011	September 29, 2021
Zerui Education	21centuryedu.com	August 1, 2017	August 1, 2021

3. Further information about our PRC establishments*Sheng Dao Xiang Cheng*

(i)	nature of the company:	Limited liability company
(ii)	incorporation date:	December 14, 2016
(iii)	term of business operation:	From December 14, 2016 to December 13, 2066
(iv)	total amount of investment:	US\$500,000
(v)	registered capital:	US\$500,000
(vi)	attributable interest of the company:	100%
(vii)	scope of business:	Education software development and its system application management and maintenance, and data processing; information technology and business outsourcing service; academic non-credential career training; consultation of corporate management, corporate affairs and commercial information; planning of marketing, brand marketing, corporate identity and public relationship and conference service
(viii)	legal representative:	Mr. Liu Zhanjie

Zerui Education

(i)	nature of the company:	Limited liability company
(ii)	establishment date:	July 12, 2017
(iii)	term of business operation:	From July 12, 2017 to July 11, 2067
(iv)	total amount of capital investment:	RMB40,000,000
(v)	attributable interest of the company:	100%
(vi)	scope of business:	Education software development, technology consulting and transfer; organization of cultural and art exchange activities; sales of stationery, sports apparatus, electronic devices, computer hardware and ancillary equipment, and office facilities
(vii)	legal representative:	Mr. Liu Zhanjie

Shijiazhuang Institute of Technology

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	July 1, 2003
(iii)	term of business operation:	From October 26, 2016 to October 26, 2019
(iv)	total amount of capital investment:	RMB5,000,000
(v)	attributable interest of the company:	100%
(vi)	scope of business:	higher education, general junior college education and secondary vocational education for academic qualification
(vii)	legal representative:	Mr. Li

Shijiazhuang Saintach

(i)	nature of the company:	Limited liability company
(ii)	establishment date:	July 13, 2011
(iii)	term of business operation:	From July 13, 2011 to July 12, 2021
(iv)	total amount of capital investment:	RMB3,000,000
(v)	attributable interest of the company:	100%
(vi)	scope of business:	Education software technology development, sales of computer software
(vii)	legal representative:	Mr. Liu Zhanjie

Hebei Saintach

(i)	nature of the company:	Limited liability company
(ii)	establishment date:	September 17, 2002
(iii)	term of business operation:	From September 17, 2002 to September 17, 2022
(iv)	total amount of capital investment:	RMB10,000,000
(v)	attributable interest of the company:	100%
(vi)	scope of business:	Educational software technology development, technical services, technical advisory, technology transfer, business management consulting; exhibition services; cultural and artistic exchange planning (exclude performances); sales of teaching equipment, maternal and child goods and books
(vii)	legal representative:	Mr. Liu Zhanjie

Infirmary of Shijiazhuang Institute of Technology

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	August 24, 2012
(iii)	term of business operation:	From December 16, 2016 to December 16, 2020
(iv)	total amount of capital investment:	RMB250,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	General practice, internal medicine, surgery, child care, traditional Chinese medicine
(vii)	legal representative:	Mr. Liu Zhanjie

Blue Crystal Kindergarten

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	January 4, 2011
(iii)	term of business operation:	From June 24, 2015 to June 24, 2019
(iv)	total amount of capital investment:	RMB900,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Preschool education
(vii)	legal representative:	Ms. Zhang Yuan

Zhengding Kindergarten

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	September 28, 2012
(iii)	term of business operation:	From August 25, 2016 to August 25, 2020
(iv)	total amount of capital investment:	RMB500,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Preschool education
(vii)	legal representative:	Mr. Zhang Yongbin

Fukang Kindergarten

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	October 12, 2012
(iii)	term of business operation:	From November 30, 2016 to November 30, 2020
(iv)	total amount of capital investment:	RMB500,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Preschool education
(vii)	legal representative:	Mr. Li

Qinghui Kindergarten

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	March 29, 2013
(iii)	term of business operation:	From March 29, 2017 to March 28, 2021
(iv)	total amount of capital investment:	RMB500,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Preschool education
(vii)	legal representative:	Ms. Wang Lijing

Tianshan Kindergarten

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	May 20, 2013
(iii)	term of business operation:	From July 25, 2017 to July 24, 2021
(iv)	total amount of capital investment:	RMB500,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Preschool education
(vii)	legal representative:	Mr. Li

Jianhua Kindergarten

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	March 7, 2014
(iii)	term of business operation:	From November 30, 2016 to November 29, 2020
(iv)	total amount of capital investment:	RMB100,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Preschool education
(vii)	legal representative:	Mr. Li

Fumenli Kindergarten

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	April 29, 2015
(iii)	term of business operation:	From August 25, 2016 to August 25, 2020
(iv)	total amount of capital investment:	RMB500,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Preschool education
(vii)	legal representative:	Mr. Zhang Yongbin

Lidu Kindergarten

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	June 29, 2015
(iii)	term of business operation:	From December 8, 2016 to December 8, 2020
(iv)	total amount of capital investment:	RMB500,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Preschool education
(vii)	legal representative:	Mr. Li

Zhicheng Tutorial School

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	February 26, 2009
(iii)	term of business operation:	From June 24, 2015 to June 24, 2019
(iv)	total amount of capital investment:	RMB1,000,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Short-term training and English training
(vii)	legal representative:	Mr. Li Hui

Chang'an Tutorial School

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	April 20, 2010
(iii)	term of business operation:	From June 1, 2017 to June 1, 2021
(iv)	total amount of capital investment:	RMB1,000,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Art and non-compulsory academic courses training
(vii)	legal representative:	Ms. Liu Hongwei

Qiaoxi Tutorial School

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	November 26, 2013
(iii)	term of business operation:	From December 16, 2016 to December 16, 2020
(iv)	total amount of capital investment:	RMB500,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Cultural and art courses training
(vii)	legal representative:	Mr. Li

Donggang Tutorial School

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	February 1, 2016
(iii)	term of business operation:	From February 1, 2016 to January 31, 2020
(iv)	total amount of capital investment:	RMB1,000,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	English and non-compulsory academic Courses training
(vii)	legal representative:	Mr. Li Hui

Huixuan Tutorial School

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	August 3, 2016
(iii)	term of business operation:	From August 3, 2016 to August 2, 2020
(iv)	total amount of capital investment:	RMB300,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	College entrance examination training
(vii)	legal representative:	Mr. Liu Zhanjie

High-tech Zone Tutorial School

(i)	nature of the entity:	Private non-enterprise unit
(ii)	establishment date:	December 19, 2016
(iii)	term of business operation:	From December 19, 2016 to December 18, 2020
(iv)	total amount of capital investment:	RMB500,000
(v)	attributable interest of the entity:	100%
(vi)	scope of business:	Literacy and art class training before college entrance examination
(vii)	legal representative:	Mr. Liu Zhanjie

D. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Directors' service contracts and letters of appointment**

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Our executive Directors will not receive any fee in relation to their directorship in our Company.

Each of our independent non-executive Directors has entered into a service contract with us for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing by served by either party on the other. Each of our independent non-executive Directors will be entitled to receive an annual director's fee of RMB80,000.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For the three years ended December 31, 2015, 2016 and 2017, the aggregate of the salaries, allowances, benefits in kind and pension scheme contribution paid to our Directors by us and our subsidiaries was RMB377,000, RMB377,000 and RMB551,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended December 31, 2015, 2016 and 2017 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate amounts of emoluments payable to, our Directors (including salaries, allowances, benefits in kind and pension scheme contribution) for the year ending December 31, 2018 will be approximately RMB765,000.

E. DISCLOSURE OF INTERESTS**1. Disclosure of interests****(a) *Interests and short positions of our Directors or chief executive in our share capital and our associated corporations following the Capitalization Issue and the Global Offering***

Immediately following completion of the Capitalization Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive of our Company in our Shares, underlying Shares and debentures of our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix X to the Listing Rules, will be as follows:

Interests and short positions in the shares, underlying shares and debentures and associated corporations:

Long positions in our Company

Name of Directors	Capacity/Nature of interest	Immediately after the Global Offering and the Capitalization Issue ⁽¹⁾	
		Number of Shares	Approximate percentage of shareholding in our Company
Mr. Li	Interest in a controlled corporation ⁽²⁾	747,264,000	62.27%

Note:

- (1) Assuming the Over-allotment Option is not exercised and all interests are long positions.
- (2) Mr. Li is the sole shareholder of Sainange Holdings and he is therefore deemed to be interested in the Shares held by Sainange Holdings by the virtue of the SFO, being 747,264,000 Shares.

Save as disclosed in “History and Corporate Structure” in this prospectus, none of our Directors or their close associates were engaged in any dealings with the Group during the two years preceding the date of this prospectus.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Capitalization Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, so far as our Directors are aware, the following persons (not being a Director or chief executive of our Company) are expected to have interests or short positions in our Shares or underlying Shares which are required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of our Group:

Interests and short positions in our Shares and underlying Shares of our Company:

Long position in our Shares

Name	Capacity/Nature of interest	Immediately after the Global Offering and the Capitalization Issue ⁽¹⁾	
		Number of Shares	Approximate percentage of shareholding in our Company
Mr. Li ^{(2) (4)}	Interest in a controlled corporation	747,264,000	62.27%
Ms. Cao Yang ⁽⁴⁾	Spouse interest	747,264,000	62.27%
Sainange Holdings	Beneficial owner	747,264,000	62.27%
Ms. Luo ^{(3) (5)}	Interest in a controlled corporation	92,736,000	7.73%
Mr. Cao Jide ⁽⁵⁾	Spouse interest	92,736,000	7.73%
Sainray Limited	Beneficial owner	92,736,000	7.73%

Notes:

- (1) Assuming the Over-allotment Option is not exercised and all interests are long positions.
- (2) Mr. Li is the sole shareholder of Sainange Holding and he is therefore deemed to be interested in the Shares held by Sainange Holding by virtue of the SFO, being 747,264,000 Shares.
- (3) Ms. Luo is the sole shareholder of Sainray Limited and she is therefore deemed to be interested in the Shares held by Sainray Limited by virtue of the SFO, being 92,736,000 Shares.
- (4) Ms. Cao Yang is the spouse of Mr. Li and she is therefore deemed to be interested in the Shares in which Mr. Li is interested by the virtue of the SFO.
- (5) Mr. Cao Jide is the spouse of Ms. Luo and he is therefore deemed to be interested in the Shares in which Ms. Luo is interested by the virtue of the SFO.

2. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executive) who will, immediately after completion of the Capitalization Issue and the Global Offering (without taking into account Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of options granted under the Share Option Scheme and the Capitalization Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries;
- (b) none of our Directors or chief executive has any interest or short position in any of our Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code, in each case once our Shares are listed;

- (c) none of our Directors nor any of the parties listed in “G. Other Information – 10. Consents of experts” in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of our Directors nor any of the parties listed in “G. Other Information – 10. Consents of experts” in this Appendix is materially interested in any contract or arrangement with the Group subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in “G. Other Information – 10. Consents of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their close associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group during the Track Record Period; and
- (g) none of our Directors are interested in any business apart from the Group’s business which competes or is likely to compete, directly or indirectly with the business of the Group.

F. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of our Shareholders passed on May 4, 2018 and adopted by a resolution of the Board on May 4, 2018 (the “Adoption Date”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

The Board may, at its absolute discretion, offer options (“Options”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“Executive”), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“Employee”);

- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (f) above (the person referred above are the “Eligible Persons”).

3. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as of the Listing Date (such 10% limit representing 120,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option granted by our Company) (the “Scheme Mandate Limit”) provided that:

- (a) our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10% of our Shares in issue as of the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules;
- (b) our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company should issue a circular to our Shareholders containing the details and information required under the Listing Rules; and
- (c) the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Company’s issued share capital from time to time. No Options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

4. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in our Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Person and his close associates (or his associates if such Eligible Person is a connected person) abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

5. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. Granting Options to connected persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a Director, chief executive or a Substantial Shareholder of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a Substantial Shareholder or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5.0 million,

such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. The grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favor at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a participant who is a Substantial Shareholder or an independent non-executive Director, or any of their respective associates. The grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favour at such general meeting.

7. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after inside information has come to its knowledge until such inside information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

8. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

9. Amount payable for Options and offer period

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date no later than 28 days after the offer date (the "Acceptance Date"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

10. Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

11. Exercise of Option

- (a) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option period in the manner as set out in this Share Option Scheme by the grantee (or his or her legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his or her legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his or her legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.
- (b) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.
- (c) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.
- (d) Subject as hereinafter provided and subject to the terms and conditions upon which the Option was granted, an Option may be exercised by the Grantee at any time during the Option Period, provided that:
 - (i) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full) and none of the events for termination of employment or engagement pursuant to the terms of the Share Option Scheme exists with respect to such grantee, he or she (or his or her legal representative(s)) may exercise the Option up to the grantee's entitlement immediately prior to the death or permanent disability (to the extent not already exercised) within a period of 12 months following his or her death or permanent disability or such longer period as the Board may determine;
 - (ii) in the event that the grantee ceases to be an Executive for any reason (including his or her employing company ceasing to be a member of our Group) other than his or her death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his or her employment to an affiliate company or the termination of his or her employment with the relevant member of our Group by resignation or culpable termination, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;

- (iii) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
- (iv) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his or her legal representatives or receiver) may until the expiry of the earlier of:
 - (1) the Option period;
 - (2) the period of two months from the date of such notice; or
 - (3) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his or her Option.
- (v) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her options at any time not later than two Business Days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

12. Life of Share Option Scheme

Subject to the terms of this Share Option Scheme, the Scheme shall be valid and effective for a period of ten years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

13. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the Option period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of the Option;

- (c) subject to the terms of the period mentioned in “F. Share Option Scheme – 11. Exercise of Option” in this Appendix, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgment, order or award outstanding against the grantee or the Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;
- (e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in this Share Option Scheme with respect to the exercise of the Option; and
- (f) a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

14. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, right issue, consolidations, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalization issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall give the Eligible Persons the same proportion of equity capital as they were previously entitled to. In respect of any such adjustments, other than any made on a capitalization issue, the auditors shall confirm to the Board in writing that the adjustments satisfy this requirement;
- (b) any such adjustments shall be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable same as (but shall not be greater than) it was before such event;
- (c) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (d) any such adjustments shall be made to in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and
- (e) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

15. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “Cancellation Date”):

- (a) the grantee commits or permits or attempts to commit or permit a breach of restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as of the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue commencing from (i) the allotment date or, (ii) if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members. Accordingly, it will entitle the holders to participate in all dividends or other distributions paid or made on or after (i) the allotment date or, (ii) if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

17. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

18. Transferability

The Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any Option or attempt to do so (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

19. Alteration of Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the our Shareholders in general meeting:

- (a) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Share Option Scheme);
- (b) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of grantee;
- (c) any change to the authority of the Board or any person or committee delegated by the Board pursuant to the Share Option Scheme to administer the day-to-day running of the Scheme; and
- (d) any alteration to the aforesaid alternation provisions,

provided always that the amended terms of the Share Option Scheme shall comply with the applicable requirements of the Listing Rules.

20. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) the approval of our Shareholders for the adoption of the Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 120,000,000 Shares to be allotted and issued pursuant to the exercise of the Share Option Scheme in accordance with the terms and conditions of the Share Option Scheme;
- (c) the commencement of dealing in our Shares on the Stock Exchange; and
- (d) the obligations of the underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms thereof or otherwise.

If the permission referred to in paragraph (b) above is not granted within two calendar months after the Adoption Date:

- (a) the Share Option Scheme will forthwith terminate;
- (b) any Option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect;
- (c) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any Option; and
- (d) the Board may further discuss and devise another share option scheme that is applicable to a private company for adoption by our Company.

Application has been made to the Stock Exchange for the listing of 120,000,000 Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme.

G. OTHER INFORMATION**1. Deed of Indemnity**

Mr. Li, Ms. Luo, Sainange Holdings and Sainray Limited have entered into the Deed of Indemnity with and in favor of our Company for itself and as trustee for its subsidiaries, to provide indemnities in respect of, among other things:

- (a) certain estate duty which might be payable by any companies in our Group by virtue of or under the provisions of the Estate Duty Ordinance (Chapter 111 of Laws of Hong Kong);
- (b) any liability of any or all of the members of our Group to any form of taxation and duty whenever created or imposed, whether of Hong Kong, the PRC or of any other part of the world, and without prejudice to the generality of the foregoing includes profits tax, provisional profits tax, business tax on gross income, income tax, value added tax, interest tax, salaries tax, property tax, land appreciation tax, lease registration tax, estate duty, capital gains tax, death duty, capital duty, stamp duty, payroll tax, withholding tax, rates, import, customs and excise duties and generally any tax duty, impost, levy or rate or any amount payable to the revenue, customs or fiscal authorities of local, municipal, provincial, national, state or federal level whether of Hong Kong, the PRC or of any other part of the world falling on any of the members of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any event on transaction on or before Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and
- (c) any depletion in or reduction in value of the Group's assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages, penalties, fines or other liabilities which any member of our Group may incur or suffer arising from the non-compliances as disclosed in "Business – Legal Proceedings and Compliance" in this prospectus.

The Deed of Indemnity does not cover any claim and Mr. Li, Ms. Luo, Sainange Holdings and Sainray Limited shall be under no liability under this Deed of Indemnity in respect of above:

- (a) to the extent that provision or allowance has been made for such taxation in the combined financial statements of our Group as set out in the Accountants' Report set out in Appendix I to this prospectus or in the audited accounts of the relevant members of our Group for the years ended December 31, 2015, 2016 and 2017 ("Accounts"); or
- (b) to taxation falling on any member of the Group in respect of any accounting period commencing on or after December 31, 2017 unless liability for such taxation would not have arisen but for some event entered into by, the indemnifiers, the Group members or any of them (whether alone or in conjunction with some other event whenever occurring); or
- (c) to the extent that such claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in any part of the world coming into force after the Listing Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Listing Date with retrospective effect; or
- (d) to the extent that any provision or reserve made for such taxation in the Accounts is finally established to be an over-provision or an excessive reserve as certified by a firm of accountants acceptable to our Company then the liability of Mr. Li, Ms. Luo, Sainange Holdings and Sainray Limited (if any) in respect of such taxation shall be reduced by an amount not exceeding such over-provision or excess reserve.

2. Litigation

As of the Latest Practicable Date, neither we nor any of our subsidiaries were/was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary expenses

Our estimated preliminary expenses are approximately RMB28,000 and have been paid by us.

4. Promoter

There are no promoters of our Company.

5. Sole Sponsor

The Sole Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the Capitalization Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the Shares that may be issued upon the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS. The Sole Sponsor confirms that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Our Company has entered into an engagement agreement with the Sole Sponsor, pursuant to which our Company agreed to pay the Sole Sponsor a fee of HK\$4,000,000 to act as sponsor to our Company in the Global Offering.

6. No material adverse change

Our Directors confirm that there has been no material adverse change in our Company's financial or trading position or prospects since December 31, 2017 (being the date to which our latest audited combined financial statements were made up).

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance (Chapter 32 of the Laws of Hong Kong) so far as applicable.

8. Miscellaneous

(1) Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
 - (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
 - (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
 - (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
 - (g) we have no outstanding convertible debt securities.
- (2) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.

9. Qualifications of experts

The followings are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
China Securities (International) Corporate Finance Company Limited	Licensed corporation under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
Ernst & Young	Certified public accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC legal advisors to our Company
Frost & Sullivan (Beijing), Inc., Shanghai Branch Co.	Independent industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent property valuer
Protiviti Shanghai Co., Ltd.	Internal control advisor
Beijing Anshen Tax Agent Co., Ltd.	Independent tax advisor

10. Consents of experts

Each of the experts named in “– 9. Qualification of experts” in this section has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, among others, copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in “G. Other Information – 10. Consents of experts” in Appendix V to this prospectus and copies of the material contracts referred to in “C. Further Information about Our Business – 1. Summary of the Material Contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Luk & Partners in Association with Morgan, Lewis & Bockius at Suites 1902-09, 191F, Edinburgh Tower, The Landmark, 15 Queen’s Road, Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date that is 14 days from the date of this prospectus:

- (1) the Memorandum and the Articles of Association;
- (2) the Accountants’ Report prepared by Ernst & Young, the texts of which are set out in Appendix I to this prospectus;
- (3) the audited financial statements as have been prepared for the companies now comprising our Group for each of the years ended December 31, 2015, 2016 and 2017;
- (4) the report received from Ernst & Young on unaudited pro forma financial information, the texts of which are set out in Appendix II to this prospectus;
- (5) the report relating to our property interest prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix III to this prospectus and the full valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited;
- (6) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
- (7) the material contracts referred to in “C. Further Information about Our Business – 1. Summary of the Material Contracts” in Appendix V to this prospectus;
- (8) the service contracts and letters of appointment with Directors, referred to “D. Further Information about our Directors – 1. Directors’ service contracts and letters of appointment” in Appendix V to this prospectus;
- (9) the written consents referred to in “G. Other Information – 10. Consents of experts” in Appendix V to this prospectus;
- (10) the PRC legal opinions prepared by Jingtian & Gongcheng, our Legal Advisor as to PRC law, in respect of certain aspects of our Group and our property interests;
- (11) the Frost & Sullivan Report;
- (12) the Companies Law; and
- (13) the rules of the Share Option Scheme.

