THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **International Alliance Financial Leasing Co., Ltd.**, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD.

国际友联融资租赁有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1563)

(1) EXTREME TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 70% INTERESTS IN YANTAI NANSHAN UNIVERSITY; (2) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTERING INTO OF THE CONTRACTUAL ARRANGEMENTS; (3) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE FRAMEWORK AGREEMENTS; AND (4) NOTICE OF EGM

Financial Adviser to the Company

中泰國際
ZHONGTAI INTERNATIONAL

ZHONGTAI INTERNATIONAL CAPITAL LIMITED

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Gram Capital Limited
嘉林資本有限公司

A letter from the Board is set out on pages 13 to 59 of this circular, and a letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 62 to 91 of this circular.

A notice convening the EGM to be held at 13th Floor, T4, Qiaochengfang, No. 4080, Qiaoxiang Road, Nanshan District, Shenzhen, Guangdong, PRC on Thursday, 18 August 2022 at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A proxy form for use at the EGM is enclosed with the notice of EGM. Such proxy form is also published on the websites of Hong Kong Exchanges and Clearing Limited (http://www.hkexnews.hk) and the Company (http://www.iaf-leasing.com). Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the completed proxy form to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (if the documents will be lodged before 15 August 2022) or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (if the documents will be lodged on or after 15 August 2022) as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such event, the proxy form shall be deemed to be revoked.

Considering the outbreak of the novel coronavirus (COVID-19), certain measures will be implemented at the EGM with a view to addressing the risk to attendees of infection, including the following: a) all attendees will be required to undergo body temperature check; b) any attendees who are subject to health quarantine prescribed by the Government of Hong Kong will not be admitted to the venue of the EGM; c) all attendees will be required to wear surgical face masks throughout the EGM; d) each attendee will be assigned a designated seat at the time of registration to ensure social distancing; e) any person who does not comply with the measures above may be denied entry into, or be required to leave, the venue of the EGM; and f) no refreshments or beverages will be provided, and there will be no corporate gifts.

The Company reminds Shareholders that they should carefully consider the risks of attending the EGM, taking into account their own personal circumstances. The Company would like to remind Shareholders that physical attendance in person at the EGM is not necessary for the purpose of exercising their voting rights and **strongly recommends that Shareholders appoint the Chairman of the EGM as their proxy and submit their form of proxy as early as possible**. In light of the risks posed by the COVID-19 Pandemic, the Company **strongly encourages Shareholders NOT to attend the EGM in person**. The Company will keep the evolving COVID-19 situation under review and may implement additional measures (which it will announce closer to the date of the EGM.)

3 August 2022

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"1st set of Structured Contracts"	collectively, (i) the 1st Business Cooperation Agreement; (ii) the 1st Exclusive Technical Service and Management Consultancy Agreement; (iii) the 1st Exclusive Call Option Agreement; (iv) the 1st School Sponsors' and Directors' Entrustment Agreement; (v) the Nanshan Group's Powers of Attorney; (vi) Mr. Song's Powers of Attorney; (vii) the 1st Appointee(s)' Powers of Attorney; (viii) the Receivables Pledge Agreement; and (ix) the 1st Spouse Undertakings
"2nd set of Structured Contracts"	collectively, (i) the 2nd Business Cooperation Agreement; (ii) the 2nd Exclusive Technical Service and Management Consultancy Agreement; (iii) the 2nd Exclusive Call Option Agreement; (iv) the Shareholder's Rights Entrustment Agreement; (v) the Equity Pledge Agreement; (vi) the 2nd School Sponsor's and Directors' Entrustment Agreement; (vii) the Designated School Sponsor's Powers of Attorney; (viii) the 2nd Appointee(s)' Powers of Attorney; (ix) the Powers of Attorney of the Registered Shareholder(s); (x) the 2nd Spouse Undertakings; (xi) the Non-competition Undertaking of Mr. Song; and (xii) the Non-competition Undertaking of Nanshan Group
"2016 Decision"	the Decision of the Standing Committee of the NPC on Amending the Law for Promoting Private Education of the PRC (《全國人民代表大會常務委員會關於修改中華人民共和國民辦教育促進法的決定》) adopted by the 12th NPC Standing Committee on 7 November 2016 and became effective on 1 September 2017
"2021 Implementation Rules"	the Implementation Rules for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》), which was released by the State Council on 14 May 2021 and became effective on 1 September 2021
"3M2021"	three months ended 31 March 2021
"3M2022"	three months ended 31 March 2022
"Acquisition"	the acquisition of the Target College and the transactions contemplated under the Acquisition Agreement for the purpose of allowing the Company to gain effective control over the Target College and enjoy 70.0% of the economic benefits generated by the Target College, such that the financial results of the Target College could be consolidated to the consolidated financial statements of the Group

"Acquisition Agreement"	the acquisition agreement dated 6 July 2022 entered into among the Company, Longkou Zhimin, Mr. Song, Nanshan Group and the Target College in relation to the Acquisition
"Announcement"	the announcement of the Company dated 6 July 2022 in relation to the Acquisition
"Appointee(s)"	the person(s) to be appointed as director(s) of the Target College by Mr. Song, Nanshan Group and/or the Designated School Sponsor from time to time
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Days"	a day excluding Saturday, Sunday and any statutory holiday of the PRC (including the holiday as temporarily specified by the competent government authority)
"Cheer Manor"	Cheer Manor Limited (智民有限公司), a limited liability company incorporated under the laws of Hong Kong and an indirect wholly-owned subsidiary of the Company
"Company"	International Alliance Financial Leasing Co., Ltd. (国际友联融资租赁有限公司), a company incorporated in the Cayman Islands with limited liability on 19 January 2015, whose Shares are listed on the Main Board of the Stock Exchange (Stock code: 1563)
"Completion"	completion of the Acquisition
"Completion Conditions"	the completion conditions to the Second Payment as detailed the section headed "Letter from the Board — II. The Acquisition — Principal terms of the Acquisition Agreement — Consideration and Payment Conditions — Second Payment" in this circular, which are also the conditions to Completion
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Connected Transaction Counterparties"	Nanshan Group, Nanshan Development, Longkou Nanshan and Longkou Management
"Contractual Arrangements"	the contractual arrangements contemplated under the Structured Contracts, through which the Company will indirectly own and control the Target Entities

"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules when used in the context of the Company
"COVID-19"	a viral respiratory disease caused by the severe acute, respiratory syndrome coronavirus (including its variants), which has been declared by World Health Organisation as a pandemic on 11 March 2020
"Designated School Sponsor"	the entity established pursuant to the instructions of the Group for the purpose of becoming the sole school sponsor of the Target College after Completion
"Director(s)"	the director(s) of the Company
"Education Authority"	Department of Education of Shandong Province
"EGM"	the extraordinary general meeting of the Company to be convened and held for the independent Shareholders to consider, and if thought fit, approve, among others the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements
"Enlarged Group"	the enlarged Group immediately after Completion
"Fifth Payment"	the payment of fifth instalment of the consideration payable by the Group under the Acquisition Agreement
"Financial Adviser"	Zhongtai International Capital Limited (中泰國際融資有限公司), a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
"First Payment"	the payment of first instalment of the consideration payable by the Group under the Acquisition Agreement
"Foreign Investment Law"	the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》), as enacted by the 13^{th} National People' s Congress on 15 March 2019, which came into effect on 1 January 2020
"Foreign Investor(s)"	one or more foreign natural persons, enterprises or other organisations which directly or indirectly carry out any investment activity directly or indirectly in the PRC
"Fourth Payment"	the payment of fourth instalment of the consideration payable by the Group under the Acquisition Agreement
"Framework Agreements"	the Framework Supply Agreements and the Framework Procurement Agreements

"Framework Procurement Agreement I"	the framework procurement agreement entered into between the Target College and Nanshan Group dated 6 July 2022, pursuant to which the Target College agreed to procure the Group B Goods and Services from Nanshan Group and its subsidiaries and/or associates
"Framework Procurement Agreement II"	the framework procurement agreement entered into between the Target College and Longkou Nanshan dated 6 July 2022, pursuant to which the Target College agreed to procure the Group B Goods and Services from Longkou Nanshan and its subsidiaries and/or associates
"Framework Procurement Agreement III"	the framework procurement agreement entered into between the Target College and Nanshan Development dated 6 July 2022, pursuant to which the Target College agreed to procure the Group B Goods and Services from Nanshan Development and its subsidiaries and/or associates
"Framework Procurement Agreements"	the Framework Procurement Agreement I, Framework Procurement Agreement II and Framework Procurement Agreement III
"Framework Supply Agreement I"	the framework supply agreement entered into between the Target College and Nanshan Group dated 6 July 2022, pursuant to which the Target College agreed to supply the Group A Services to Nanshan Group and its subsidiaries and/or associates
"Framework Supply Agreement II"	the framework supply agreement entered into between the Target College and Longkou Nanshan dated 6 July 2022, pursuant to which the Target College agreed to supply the Group A Services to Longkou Nanshan and its subsidiaries and/or associates
"Framework Supply Agreement III"	the framework supply agreement entered into between the Target College and Longkou Management dated 6 July 2022, pursuant to which the Target College agreed to supply the Group A Services to Longkou Management and its subsidiaries and/or associates
"Framework Supply Agreement IV"	the framework supply agreement entered into between the Target College and Nanshan Development dated 6 July 2022, pursuant to which the Target College agreed to supply the Group A Services to Nanshan Development and its subsidiaries and/or associates
"Framework Supply Agreements"	the Framework Supply Agreement I, Framework Supply Agreement II, Framework Supply Agreement III and Framework Supply Agreement IV

"Frost & Sullivan"	Frost & Sullivan International Limited, an independent market research and consulting company
"FY"	financial year ended or ending 31 December
"Group"	the Company and its subsidiaries and consolidated affiliated entities from time to time as the context requires
"Group A Services"	services including staff training services, venue rental services, catering services, and other types of services to be agreed by the relevant parties in writing from time to time
"Group B Goods and Services"	(a) goods including clothes such as staff uniforms, furniture and fixtures, gifts and souvenirs, gasoline, petrol and diesel and other products; and (b) services including repairing and maintenance services, campus sanitary and cleaning services, gardening services, venue rental services, laboratory testing services, catering services and accommodation services and other types of goods and services to be agreed by the relevant parties in writing from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HURC"	Housing and Urban Rural Construction Administration of Longkou City* (龍口市住房與城鄉建設管理局)
"Independent Board Committee"	an independent committee of the Board comprising all of the independent non-executive Directors, namely Mr. Liu Changxiang, Mr. Liu Xuewei, Mr. Jiao Jian and Mr. Shek Lai Him Abraham, established to give recommendation to the Independent Shareholders in relation to the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements
"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition (including the Contractual Arrangements), the entering into of the Framework Procurement Agreements and the transactions contemplated thereunder
"Independent Shareholders"	Shareholder(s) other than Union Capital

"independent third party(ies)"	entity(s) or person(s) that is not a connected person(s)
"Industry Report" or "Frost & Sullivan Report"	the independent industry report prepared by Frost & Sullivan
"Latest Practicable Date"	26 July 2022, being the latest practicable date for ascertaining certain information in this circular before its publication
"Law for Promoting Private Education"	the Law for Promoting Private Education (中華人民共和國民辦教育促進法) published by the Standing Committee of the NPC on 28 December 2002, which later became effective on 1 September 2003, and was amended in June 2013, further amended in November 2016 and took effect on 1 September 2017, and last amended on 29 December 2018
"Listing"	the listing of the shares of the Company on 15 March 2019
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Longkou Management"	Longkou Nanshan (new) Enterprise Management Co., Ltd.* (龍口新南山企業管理有限公司), a company established in the PRC with limited liability and was owned as to 70.0% and 30.0% by Mr. Song and Ms. Lv, respectively, as at the Latest Practicable Date
"Longkou Nanshan"	Longkou Nanshan (new) Investment Development Co., Ltd.* (龍口新南山投資發展有限公司), a company established in the PRC with limited liability and was owned as to approximately 83.3% and 16.7% by Mr. Song and Ms. Lv, respectively, as at the Latest Practicable Date
"Longkou Zhimin"	Longkou Cheer Manor Education Consulting Service Co., Ltd.* (龍口智民教育諮詢服務有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"Material Adverse Change"	with respect to any entity, any event, fact, condition or change which has or, by reasonable expectation, may have material adverse impact or prejudice on the continuous operations, business operation, prospects of development, financial conditions, assets or liabilities of such entity
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)

"MOE Opinions"	Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》) issued by the MOE on 18 June 2012
"Mr. Song"	Mr. Song Zuowen (宋作文), the father-in-law of Ms. Sui, the registered school sponsor of the Target College as designated by Nanshan Group
"Mr. Song Jianbo"	Mr. Song Jianbo (宋建波), the spouse of Ms. Sui and the son of Mr. Song, the legal representative, chairman and general manager of Nanshan Group, and is interested in 49% of the equity interest in Nanshan Group as at the Latest Practicable Date
"Ms. Lv"	Ms. Lv Shuling (呂淑玲), the mother-in-law of Ms. Sui and the spouse of Mr. Song
"Ms. Sui"	Ms. Sui Yongqing (隋永清), one of the controlling shareholders of the Company, the daughter-in-law of Mr. Song and the wife of Mr. Song Jianbo (宋建波), who is the legal representative, chairman and general manager of Nanshan Group
"Nanshan Development"	Shandong Nanshan Construction Development Co., Ltd.* (山東南山建設發展股份有限公司), a company established in the PRC and was owned as to approximately 63.7%, 22.7% and 13.7% by Mr. Song, Nanshan Group and Ms. Sui, respectively, as at the Latest Practicable Date
"Nanshan Group"	Nanshan Holdings Co., Ltd.* (南山集團有限公司), a company established in the PRC with limited liability, and was owned as to 51.0% by Nanshan Village Committee and 49.0% by Mr. Song Jianbo, as at the Latest Practicable Date
"Nanshan Village Committee"	the village member committee (龍口市東江街道南山村村民委員會) of Nanshan Village, Dongjiang Street, Longkou City, Shandong Province, PRC (龍口市東江街道南山村)
"Negative List"	the Special Administrative Measures for Access of Foreign Investment (Negative List) (2021 Edition) (外商投資准入特別管理措施(負面清單)(2021年版))
"New River"	New River Ventures Limited (新川創投有限公司), a limited liability company established under the laws of British Virgin Islands and an indirect wholly-owned subsidiary of the Company

"NPC"	the National People's Congress of the PRC (中華人民共和國全國人民代表大會), the national legislative body of the PRC
"NRPB"	Natural Resources and Planning Bureau of Longkou City* (龍口市自然資源與規劃局)
"PRC" or "China"	the People's Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of this circular
"PRC Civil Code"	the Civil Code of the PRC (《中華人民共和國民法典》) enacted by the NPC on 28 May 2020, which became effective from 1 January 2021
"PRC Government"	central government of the PRC and all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
"Prospectus"	the prospectus of the Company dated 28 February 2019
"Registered Shareholder(s)"	the registered shareholder(s) of the Designated School Sponsor
"RMB"	Renminbi, the lawful currency of the PRC
"School Condition Notice"	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)》
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) with par value of US$0.000001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Sino-Foreign Regulation"	the Regulation on Operating Sino-foreign Schools of the PRC (《中華人民共和國中外合作辦學條例》)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	the 1st set of Structured Contracts and the 2nd set of Structured Contracts

"subsidiary"	any entity within the meaning of the term "subsidiary" as defined in the Listing Rules and the term "subsidiaries" shall be construed accordingly
"Target College"	Yantai Nanshan University* (煙台南山學院), located in Longkou City, Shandong Province, the PRC (中國山東省龍口市), a private school registered and approved on 17 October 2000 as a private non-enterprise unit under the laws of the PRC, and its subordinate entities and units from time to time
"Target Entities"	the Target College and its subordinate entities and units from time to time, and where the context requires, in respect of any time after the establishment of the Designated School Sponsor and the entering into of the 2nd set of Structured Contracts, the Designated School Sponsor and its subsidiaries from time to time
"Third Payment"	the payment of third instalment of the consideration payable by the Group under the Acquisition Agreement
"Track Record Period"	the period comprising the three years ended 31 December 2021 and the three months ended 31 March 2022; and the phrase "during the Track Record Period" or "for the Track Record Period" followed by a series of figures or percentages, refers to information relating to the three years ended 31 December 2021 and the three months ended 31 March 2022
"Transaction Documents"	the Acquisition Agreement and all such agreements, documents and certificates entered or to be entered into for the completion of the transactions contemplated under the Acquisition Agreement, including the Structured Contracts
"Union Capital"	Union Capital Pte. Ltd., a company incorporated in Singapore on 18 March 2010, one of the controlling shareholders of the Company and is wholly-owned by Ms. Sui as at the date of this circular
"Vendors"	Mr. Song and Nanshan Group
"%"	per cent

Unless stated otherwise, in this circular, amounts denominated in RMB have been translated into HK$ at the exchange rate of RMB0.857 to HK$1, being the exchange rate of RMB against HK$ as announced by The People's Bank of China on 6 July 2022. No representation is made that the HK$ amounts could have been or could be converted into RMB at such rate or any other rate or at all. Certain amounts and percentage figures in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails. English translation of company names in Chinese or another language which are marked with "" are for identification purpose only.*

The English language version of this circular has been translated into the Chinese language and English and Chinese versions of this circular are being published separately. If there should be any inconsistency between the English and Chinese versions, the English version shall prevail.

This glossary of technical terms contains explanations of certain technical terms used in this circular in connection with the Target College and the Target College's business. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

"CAGR"	compound annual growth rate
"compulsory education"	grade one to grade nine education, which all citizens in China must receive according to the Compulsory Education Law of the PRC (《中華人民共和國義務教育法》)
"degree"	an academic degree that recognises completion of required length of study at an institution that is eligible to award such degree
"elementary school(s)" or "primary school(s)"	schools that provide education for students in grade one through grade six
"formal education"	education systems that provide students with the opportunity to earn official certificates from the PRC government
"GDP"	gross domestic product
"GFA"	gross floor area
"high school(s)"	schools that provide education for students in grade 10 through grade 12
"higher education"	an optional final stage of formal learning that occurs after secondary education, which is often delivered at universities, academies, colleges, seminaries and institutes of technologies
"independent college"	an undergraduate level higher education institution established by a public university that provides formal undergraduate and above level education in association with individuals or non-governmental organisations using non-state funds
"initial employment rate"	the percentage of graduates who entered into full-time employment contracts, were self-employed, accepted an offer for higher degree or equivalent programmes, or accepted an offer to pursue overseas study or employment, before September 1 of each year. There may be variation to the meaning of this term depending on the relevant school and type of graduates considered
"junior college diploma program(mes)"	a three-year postsecondary formal education programme that generally enrols high school graduates who have taken the National Higher Education Entrance Examination, and upon completion of which a junior college diploma will be granted

"middle school(s)"	schools that provide education for students from grade seven to grade nine
"National Higher Education Entrance Examination"	also known as "Gaokao" (高考), a national academic examination held annually in China, which is a prerequisite for entrance into almost all higher education institutions at the undergraduate level in China
"private higher education institution"	a PRC private higher education institution (民辦高等教育機構) not affiliated with any public universities that is operated by non-governmental entity(ies) or individual(s) where government funding is not a major source of capital and has open admission and enrolment to the public
"private school(s)"	school(s) which are not administered by local, provincial or national governments
"public school(s)"	school(s) administered by local, provincial or national governments
"school sponsor"	the individual(s) or entity(ies) that funds or holds interests in an educational institution
"school year"	the school year for the Target College, which generally starts on September 1 of each calendar year and ends on August 31 of the next calendar year
"secondary education"	generally includes middle school education and high school education from grade seven through grader 12
"secondary vocational education"	a three-year programme that generally enrols middle school graduates or a one-year vocational education programme that generally enrols high school graduates, and upon the completion of which a vocational high school diploma will be granted
"sq.m."	square metres
"student enrolment(s)"	total number of students enrolled in a certain educational programme in a given period
"undergraduate programme"	a four-year postsecondary formal programme that generally enrols high school graduates who have taken the National Higher Education Entrance Examination, and upon the completion of which a bachelor's degree will be granted

INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD.
国 际 友 联 融 资 租 赁 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1563)

Executive Directors:
Mr. Li Luqiang *(Chief executive officer)*
Mr. Liu Zhenjiang

Non-executive Director:
Mr. Jiao Jianbin

Independent Non-executive Directors:
Mr. Liu Changxiang
Mr. Liu Xuewei
Mr. Jiao Jian
Mr. Shek Lai Him Abraham

Registered Office:
Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong:
Unit 2602, 26th Floor, One Hennessy
No.1 Hennessy Road
Wan Chai
Hong Kong

3 August 2022

To the Shareholders

Dear Sir or Madam,

(1) EXTREME TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 70% INTERESTS IN YANTAI NANSHAN UNIVERSITY;
(2) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTERING INTO OF THE CONTRACTUAL ARRANGEMENTS;
(3) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE FRAMEWORK AGREEMENTS; AND
(4) NOTICE OF EGM

I. INTRODUCTION

Reference is made to the announcement of the Company dated 6 July 2022 in relation to, *inter alia*, the Acquisition and the Framework Agreements.

On 6 July 2022 (after trading hours), the Company and Longkou Zhimin, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Mr. Song, Nanshan Group and the Target College, pursuant to which Longkou Zhimin, as the purchaser, has conditionally agreed to acquire, and Mr. Song and Nanshan Group as the vendors, have conditionally agreed to sell, the control of the Target College and 70.0% equity interest in the Designated School Sponsor at a total consideration of RMB566.0 million (equivalent to approximately HK$660.4 million).

As part of the Acquisition arrangement, Longkou Zhimin will enter into the Structured Contracts (comprising the 1st set of Structured Contracts and the 2nd set of Structured Contracts) with, among others, Mr. Song, Nanshan Group, the Designated School Sponsor and/or the Registered Shareholder(s), in order for the Group to gain effective control over the Target College and enjoy 70.0% of the economic benefits generated by the Target College through the Contractual Arrangements.

On 6 July 2022 (after trading hours), the Target College entered into the Framework Agreements (comprising the Framework Supply Agreements and the Framework Procurement Agreements) with the Connected Transaction Counterparties, pursuant to which the Target College will supply the Group A Services to, and procure the Group B Goods and Services from, the Connected Transaction Counterparties as part of its ordinary course of business upon fulfilment of certain conditions precedent including Completion.

The purpose of this circular is to provide Shareholders with, *inter alia*, (i) further details of the Acquisition (including the Contractual Arrangements) and the Framework Agreements; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements; (iii) a letter of advice from Gram Capital addressing to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition (including the Contractual Arrangements), the Framework Procurement Agreements and the transactions contemplated thereunder; (iv) information about the Target College; (v) financial information of the Group; (vi) accountants' report on the Target College; (vii) management discussion and analysis on the Group and the Target College; (viii) property valuation report of the Target College by an independent valuer; (ix) business valuation report; (x) unaudited pro forma financial information of the Enlarged Group; (xi) other information required under the Listing Rules and/or by the Stock Exchange in relation to enhanced disclosures; and (xii) a notice of the EGM.

II. THE ACQUISITION

PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT

Date

6 July 2022 (after trading hours)

Parties

(a) the Company;

(b) Longkou Zhimin;

(c) Mr. Song;

(d) Nanshan Group; and

(e) the Target College.

Subject matter of the Acquisition

As at the date of this circular, Mr. Song is the registered school sponsor of the Target College as designated by Nanshan Group, while Nanshan Group maintains control over the Target College, and the financial results of the Target College are consolidated into the consolidated financial statements of Nanshan Group. The school sponsor of the Target College has the right to (i) nominate candidates for directors or supervisors of the Target College, (ii) review the board minutes and financial statements of the Target College, and (iii) understand the operating and financial status of the Target College in accordance with the articles of association of the Target College.

Subject to and upon fulfilment of the terms and conditions of the Acquisition Agreement, Longkou Zhimin shall acquire the control of the Target College and 70.0% equity interest in the Designated School Sponsor from the Vendors.

Due to the restriction of foreign ownership under the PRC laws (as further discussed in the section headed "Contractual Arrangements" in this circular) and as one of the Completion Conditions, Longkou Zhimin will enter into the 1st set of Structured Contracts with, among others, Mr. Song and Nanshan Group, pursuant to which the Company shall gain effective control over the Target College through the Contractual Arrangements, and shall enjoy 70.0% of the economic benefits generated by the Target College.

Consideration and payment conditions

The total consideration for the Acquisition is RMB566.0 million (equivalent to approximately HK$660.4 million), which shall be payable to Nanshan Group and shall be satisfied by cash in the following manner:

	RMB'000
First Payment	35,000
Second Payment	70,000
Third Payment	295,000
Fourth Payment	109,400
Fifth Payment	56,600

First Payment

The First Payment of RMB35.0 million (equivalent to approximately HK$40.8 million) shall be made within ten Business Days upon the entering into of the Acquisition Agreement.

Second Payment

The Second Payment of RMB70.0 million (equivalent to approximately HK$81.7 million) shall be made within ten Business Days upon fulfilment of the following Completion Conditions:

(a) internal approval(s) of Nanshan Group having been obtained for the Acquisition and the signing, delivery and implementation of the Transaction Documents by Nanshan Group;

(b) the signing of the Acquisition Agreement by the Vendors;

(c) approval(s) by the Board having been obtained for the Acquisition and the signing, delivery and implementation of the Transaction Documents, and the publication of an announcement for the Acquisition by the Company;

(d) approval(s) by the Independent Shareholders having been obtained for the Acquisition and the signing, delivery and implementation of the Transaction Documents;

(e) the Stock Exchange and other relevant regulatory authorities having granted all the waivers required for carrying out the transactions contemplated under the Transaction Documents (including the Structured Contracts);

(f) there having been no further comment by the Stock Exchange on the announcement(s) and circular(s) relating to Acquisition, and no additional conditions precedent to the implementation and completion of the Acquisition being imposed by the Stock Exchange;

(g) all necessary consents, authorisations or waivers from third parties having been obtained by the Target College and the Vendors;

(h) the registration of the articles of association of the Target College (which sets out Mr. Song as the sole school sponsor of the Target College) with the Department of Civil Affairs of Shandong Province having been completed;

(i) the delivery of the relevant documents, information and properties of the Target College as set out in the relevant schedule of the Acquisition Agreement to Longkou Zhimin (or other parties designated by Longkou Zhimin) having been completed;

(j) the 1^{st} set of Structured Contracts having been duly executed and remaining valid and effective;

(k) an opinion from the auditors of the Company that the financial results of the Target College can be consolidated to those of the Group pursuant to the 1^{st} set of Structured Contracts having been obtained by the Company;

(l) the representations and warranties made by the Vendors in the Acquisition Agreement remaining true, accurate and complete, the undertakings and obligations under the Acquisition Agreement having been complied with by the Vendors, and there having been no breach of the Acquisition Agreement by the Vendors;

(m) there having been no Material Adverse Change with respect to the Vendors and the Target College; and

(n) there having been no applicable law or governmental prohibitions that may restrict or prohibit the Acquisition.

Third Payment

The Third Payment of RMB295.0 million (equivalent to approximately HK$344.2 million) shall be made within ten Business Days upon the expiry of 90 days after Completion. The due date for the Third Payment is extendible for a period of 180 days at the option of the Group, provided that the Group shall pay to Nanshan Group an additional interest calculated at 4.0% per annum of the unsettled portion of the Third Payment over the extended payment period until its settlement.

Fourth Payment

The Fourth Payment of RMB109.4 million (equivalent to approximately HK$127.7 million) shall be made within ten Business Days upon the earlier of (i) fulfilment of the following conditions (the "**Fourth Payment Conditions**") or (ii) the expiry of two years after Completion:

(a) the Ministry of Education of the PRC having approved the Designated School Sponsor as the sole school sponsor of the Target College;

(b) the entity which owns 70.0% equity interest in the Designated School Sponsor having obtained the recognition of the Group;

(c) the Education Department of the Shandong Province and the Department of Civil Affairs of Shandong Province having registered the Designated School Sponsor as the sole school sponsor of the Target College;

(d) the reorganisation of the board of directors and management of the Target College in accordance with the requirements of Longkou Zhimin having been completed, and the filing of the updated list of board of directors of the Target College with the Department of Civil Affairs of Shandong Province having been completed;

(e) the filing of the revised articles of association of the Target College (showing the Designated School Sponsor as the sole school sponsor of the Target College) with the Department of Civil Affairs of Shandong Province having been completed;

(f) the 1st set of Structured Contracts having been terminated and the 2nd set of Structured Contracts having been duly executed and taken effect, and remaining valid and effective;

(g) all provisions under the applicable PRC laws and regulations in relation to the existence, management and operations of the Designated School Sponsor and the Target College having been complied with by the Designated School Sponsor and the Target College (including all necessary permits, licences, registrations and filings for the operations of the Designated School Sponsor and the Target College having been obtained and remaining valid);

(h) the representations and warranties made by the Vendors in the Acquisition Agreement remaining true, accurate and complete, the undertakings and obligations under the Acquisition Agreement having been complied with by the Vendors, and there having been no breach of the Acquisition Agreement by the Vendors;

(i) there having been no Material Adverse Change with respect to the Designated School Sponsor and the Target College; and

(j) there having been no applicable law or governmental prohibitions that may restrict or prohibit the Acquisition.

Further, the due date for the Fourth Payment (determined based on the above mechanism) is extendible for a period of 360 days at the option of the Group, provided that the Group shall pay to Nanshan Group an additional interest calculated at 4.0% per annum of the unsettled portion of the Fourth Payment over the extended payment period until its settlement.

Fifth Payment

The Fifth Payment of RMB56.6 million (equivalent to approximately HK$66.0 million) shall be made in accordance with the following manner:

(a) if the Fourth Payment is made based on the expiry of the two year-period after Completion, rather than the fulfilment of the Fourth Payment Conditions, then the Fifth Payment shall be made within ten Business Days upon (i) the fulfilment of the Fourth Payment Conditions, or (ii) the expiry of four years after Completion, whichever is later; or

(b) if the Fourth Payment is made based on the fulfilment of the Fourth Payment Conditions, then the Fifth Payment shall be made within the ten Business Days upon the expiry of four years after Completion.

Further, the due date for the Fifth Payment (determined based on the above mechanism) is extendible for a period of 720 days at the option of the Group, provided that the Group shall pay to Nanshan Group an additional interest calculated at 4.0% per annum of the unsettled portion of the Fifth Payment over the extended payment period until its settlement.

The parties agree that only monetary remedies are available for any breach of the payment obligations of consideration under the Acquisition Agreement.

Basis of determination of consideration

The consideration of the Acquisition was arrived at after arm's length negotiations with reference to and taking into account, among other matters, the business valuation of the Target College ("**Business Valuation**") prepared by Jones Lang Lasalle Corporate Appraisal and Advisory Limited (the "**Valuer**") (a copy of the business valuation report is set out in Appendix V to this circular), as well as the track record, geographical location, ranking, number of students, course offerings and tuition fee levels of the Target College, which are indicators of the performance of the Target College. The ranking of the Target College, coupled with its geographical location, reflects the competitivities of the Target College which in turn affects the prospects of the Target College. Further, the number of students, course offerings and tuition fee levels of the Target College all have a direct bearing on the performance of the Target College. In particular, the number of students and tuition fee levels are the two major factors affecting the revenue of the Target College, whereas the course offerings including number of majors reflected the stability of the business of the Target College. These factors were also taken into account by the Company when assessing the suitability of the Target College as the acquisition target, and hence the Acquisition. The Business Valuation also allowed the Company to further assess and determine the consideration from a more systematic and objective approach taking into account the reasonable valuation of the Target College with the support of market data.

The valuation date of the Business Valuation is 31 March 2022. In arriving the market value of the 70.0% interest in the Target College, the Valuer has adopted the market approach, as the costs approach does not directly incorporate information about the economic benefits contributed by the Target College, whereas the income approach involves long-term financial projections and adoption of a number of assumptions, which may not be easily quantified or ascertained.

In terms of valuation methodology, the Valuer has chosen the guideline public companies method, which involves identifying suitable guideline public companies and selection of appropriate trading multiples, being the current enterprise value to EBITDA ratio ("**EV/EBITDA Ratio**"), so as to reflect the latest financial performance and position of the Target College. Under this valuation method, a total of 14 companies engaged in educational service that provides undergraduate and junior college programmes and listed on the Stock Exchange were selected and applied by the Valuer as comparable companies (i.e. the guideline public companies) to derive the EV/EBITDA Ratio of 5.17 for the valuation of the 70.0% interest in the Target College, after making certain adjustments based on, among others, the size and scale of the comparable companies. Such EV/EBITDA Ratio is then multiplied against the trailing 12 months EBITDA of the Target College as at 31 December 2021 of approximately RMB141.3 million, to calculate the enterprise value of the Target College of approximately RMB730.8 million. The said enterprise value is then further adjusted by (i) adding the cash and cash equivalents held by the Target College of approximately RMB48.8 million as at 31 December 2021; (ii) adding a control premium of approximately 33.90% to reflect the controlling interest at stake (i.e. 70.0% interest in the Target College), and (iii) discounting by approximately 15.8% to reflect the lack of marketability of the interest in the Target College as it is privately held, such that the fair value of approximately RMB615.2 million for the 70.0% interest in the Target College is arrived at. For details, please refer to "Appendix V — Business Valuation Report" to this circular. Also, as at 31 December 2021, there is no net debt to be adjusted in determining the fair value of the Target College.

As confirmed by the Valuer, the Valuer is an international valuer with a full set of the PRC and Hong Kong valuation qualifications and extensive valuation experience (including higher education institutions) in the PRC. The business valuation report is prepared by the Valuer with reference to the International Valuation Standards issued by the International Valuation Standards Council.

After reviewing the business valuation report and having further discussions with the Valuer and taking into account the above, the Directors are of the view that the valuation method, major inputs and assumptions adopted by the Valuer are fair and reasonable and in line with market practice.

Taking into consideration of the above factors, the Directors (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee in this circular) are of the view that the consideration of the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The consideration for the Acquisition shall be funded by internal resources of the Group and, if so required, borrowings of the Group.

Completion

Completion shall take place on the date on which the last of the Completion Conditions is satisfied. Upon Completion, the financial results of the Target College will be consolidated to the consolidated financial statements of the Company pursuant to the 1^{st} set of Structured Contracts.

As at the date of this circular, only conditions (a) — (c) and (e) — (h) of the Completion Conditions have been fulfilled.

Having considered that (i) the Company will be able to consolidate the financial results of the Target College upon execution of the 1^{st} set of Structured Contracts; (ii) the aim and effect of both the 1^{st} set of Structured Contracts and the 2^{nd} set of Structured Contracts do not have material difference, just that the 2^{nd} set of Structured Contracts would allow clearer delineation of interests of the Group from that of Nanshan Group and confer administrative convenience to the Group in the future; and (iii) the 1^{st} set of Structured Contracts shall remain valid and legally binding until the 2^{nd} set of Structured Contracts becoming effective and thereby superseding the 1^{st} set of Structured Contracts, the Directors consider that the current arrangement in respect of Completion, i.e. subject to the execution of the 1^{st} set of Structured Contracts rather than the 2^{nd} set of Structured Contracts, is commercially sensible and justifiable, and in the interest of the Company and the Shareholders as a whole.

Indemnity provided by Nanshan Group

Pursuant to the Acquisition Agreement, Nanshan Group is responsible for providing indemnity for the monetary fines, settlement payments and any associated costs and expenses in relation to the Target College's non-compliance events that happened or arose prior to Completion, and such duty of Nanshan Group to provide indemnity shall subsist after Completion. There is also no limitation as to the kind of non-compliance incident regarding the indemnity obligation of Nanshan Group under the Acquisition Agreement.

Change of school sponsor of the Target College after Completion

Pursuant to the Acquisition Agreement, the Vendors have undertaken to take all necessary measures to cooperate with the Target College to change the school sponsor of the Target College to the Designated School Sponsor after Completion, including but not limited to establishing the Designated School Sponsor in accordance with the instructions of the Group, and to apply for change of the school sponsor of the Target College in the name of the Designated School Sponsor.

In the event that Mr. Song becomes the sole or controlling shareholder of the Designated School Sponsor, Mr. Song shall transfer 70.0% of the equity interest in the Designated School Sponsor to the Group by way of, among others, equity transfer at nominal consideration or the lowest consideration permitted under the PRC laws and regulations, and/or irrevocable entrustment of all or part of his rights as shareholder of the Designated School Sponsor to Longkou Zhimin.

Upon the Ministry of Education of the PRC (i) approving the Designated School Sponsor to become the sole school sponsor of the Target College and (ii) notifying the Education Department of the Shandong Province of such approval, the Vendors shall, in accordance with the instructions of Longkou Zhimin:

(a) cooperate with Longkou Zhimin and the Target College to terminate the 1st set of Structured Contracts; and

(b) procure the Designated School Sponsor and all its shareholders, as well as their related parties (where applicable) to enter into the 2nd set of Structured Contracts with Longkou Zhimin and the Target College.

Termination

The Acquisition Agreement can be terminated if any of the following events happens prior to Completion:

(a) the parties to the Acquisition Agreement entering into a termination agreement in writing;

(b) the occurrence of any Material Adverse Changes with respect to the Target College or the Vendors (only Longkou Zhimin being entitled to terminate the Acquisition Agreement on this ground);

(c) the Completion Conditions not being fulfilled by 31 December 2022 (or any other date as agreed by the parties to the Acquisition Agreement in writing) (only Longkou Zhimin being entitled to terminate the Acquisition Agreement on this ground);

(d) there having been applicable law or governmental prohibitions that may restrict or prohibit the Acquisition (all parties to the Acquisition Agreement being entitled to terminate the Acquisition Agreement on this ground);

(e) the non-defaulting party unilaterally terminating the Acquisition Agreement on the ground that a party's breach of an obligation under the Acquisition Agreement will frustrate the purpose of the Acquisition Agreement and such breach having not been remedied by the defaulting party within 30 days upon receipt of a written notice from the non-defaulting party.

If the Acquisition Agreement is terminated, all respective payments received by the Vendors under the Acquisition Agreement (if any) should be returned to the Purchaser within five (5) Business Days from the termination date of the Acquisition Agreement, whereupon the 1st set of Structured Contracts shall then be terminated and the effective control of the Target College shall then be transferred back to the Vendors (where applicable). Save for aforesaid and any antecedent breaches and rights and obligations already incurred, all rights and obligations of the parties to the Acquisition Agreement (other than those under liabilities and damages clauses, or general provisions such as confidentiality and governing law) shall cease upon termination of the Acquisition Agreement.

For the avoidance of doubt, after Completion, the Vendors are not entitled to terminate or exercise their rights to terminate the Acquisition Agreement for any breach of the Acquisition Agreement on the part of the Group.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the finance leasing and the provision of finance leasing and advisory services to its customers. The Group targets customers in the healthcare, aviation and public infrastructure industries in the PRC.

Since the emergence of the COVID-19 pandemic and the tightened requirements on the customers of finance leasing companies as a result of the Interim Measures for the Supervision and Administration of Financial Leasing Companies* (融資租賃公司監督管理暫行辦法), which was promulgated in 2020, the management of the Group has been exploring the opportunity to diversify and expand the Group's business in addition to the existing principal business of finance leasing, so as to mitigate and disperse the potential risks of solely carrying on and concentrating on the finance leasing business considering its nature which has been more prone to the business cycle and external macroeconomic environments, as well as broadening the Group's sources of income to enhance its shareholders' value and ensure sustainable growth.

As compared to finance leasing, the higher education business tends to be less susceptible to business cycle and could generate stable operating cash flow. According to the Ministry of Education, the total revenue of PRC higher education industry had experienced a CAGR of 8.5% between 2016 to 2020. As advised by the industry consultant of the Company, the total revenue of the PRC higher education industry is expected to grow at a CAGR of 8.8% between 2020 to 2025.

In particular, entry barriers to the PRC private higher education industry are generally high, including a number of lengthy and complex application and approval processes, the requirements of having sufficient initial capital, on-going investments and land resources for school facilities, as well as the time and experience required for establishing brand awareness and reputations due to students' and parents' inclination to choose schools with a long history and well-established reputation. According to the industry consultant of the Company, the total revenue of private higher education industry in the PRC had experienced a CAGR of 8.4% from approximately RMB102.4 billion in 2016 to approximately RMB141.5 billion in 2020 and it is expected to grow at a CAGR of 9.0% to approximately RMB217.4 billion in 2025. For further details, please refer to the section headed "Industry Overview Relating to the Target College" in this circular. Therefore, the Board considers engaging in the PRC private higher education business will be less competitive among other education sectors and provide a stable income source to the Group, thereby further strengthening the financial position of the Group in times of market downturn and mitigating market risks faced by the Group.

Having considered the brand, qualifications, reputation and market position of the Target College, the Directors (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee in this circular) believe that the Acquisition will bring attractive growth potential to the Group in the higher education market in the PRC, thereby achieving the diversification of income sources of the Group. Taking into account, among others, that the Nanshan Group is the founder of the Target College and its social status being one of the largest private enterprises in Shandong Province, the Directors consider it is beneficial for the Company and the Target College to retain Nanshan Group as the minority shareholder of the Target College. Given that 70% interest would already allow the Group to have control over the Target College and therefore consolidate its financial results, the Directors consider that acquiring 70% interest in the Target College rather than the entire interest is in the interest of the Company and its shareholders as a whole. As at the date of this circular, the Company has no intention or plan to purchase the remaining 30% interests in the Target College from the Vendors.

As stated in the paragraph headed "Completion" above, the financial results of the Target College will be consolidated to the consolidated financial statements of the Company upon Completion. RMB105 million (constituting approximately 18.6% of the total consideration) has to be paid within ten days after the Completion in two instalments, while the remaining RMB461 million (constituting approximately 81.4% of the total consideration) will be paid in three instalments thereafter. The management of the Company made reference to the list of comparable companies as identified by the Valuer, conducted further desktop searches on acquisitions of colleges or higher educational institutions established in the PRC since 1 January 2021 by such comparable companies and sorted out a group of selected comparable companies of which the corresponding announcements or circulars of the acquisitions have set out clear definition of the completion or consolidation of the target colleges or higher education institutions to the listed groups. Based on the above condition and the selection criteria adopted by the Valuer as set out in "Appendix V — Business Valuation Report", the Company considers such selected comparable companies are exhaustive, fair and representative. Further, it is noticed that, in general, at least half of the total consideration was paid upon completions of other comparable acquisitions.

Out of the five instalments, the Fourth Payment and the Fifth Payment shall be paid after the fulfilment of the Fourth Payment Conditions or within the specified timeframe even if the same have not been fulfilled. The Fourth Payment Conditions mainly involve the regulatory approval, registration and corresponding procedures (such as the execution of the 2nd set of Structured Contracts) regarding the change of the existing school sponsor of the Target College to the Designated School Sponsor. Such change (including the execution of the 2nd set of Structured Contracts) is to confer administrative convenience to the Group in the future. In fact even without the fulfilment of the Fourth Payment Conditions (in particular those related to the change of school sponsor), as reiterated above, the Company will gain effective control over the Target College and enjoy 70.0% of the economic benefits generated by the Target College upon execution of the 1st set of the Structured Contracts and the financial results of the Target College will be consolidated to the consolidated financial statements of the Company upon Completion. Also, in the circumstance that the Fourth Payment Conditions have not been fulfilled, the earliest time for the Fourth Payment and the Fifth Payment will be approximately two years and four years after the Completion, respectively. By the time of such payments, the Company will have taken control of the Target College and the financial results of the Target College have been consolidated into the Group for at least two years. With reference to the profit of the Target College during the Track Record Period, the Target College generated profit of at least RMB100 million per financial year. Accordingly, it is estimated that the Target College would have brought in profit to the Enlarged Group upon Completion and the Fourth Payment and the Fifth Payment would also be partially financed by the operating profits generated by the Target College.

The Company (with the assistance of the core management team of the Target College) will closely monitor, among others, operations, performance, financial conditions of the Target College as well as regulations which may impact the Target College to minimise any potential adverse impact to the Target College after the Completion. Following the Completion, the Company will implement several internal control measures against the Target Entities from time to time. Please refer to the section headed "Contractual Arrangements — Internal Control measures to be implemented by the Group" in this circular for details.

The Directors are of the view that, instead of focusing on the Fourth Payment and the Fifth Payment only, the Consideration and all of the payment terms as a whole should be considered to determine whether the terms of the Acquisition Agreement are in the interest of the Company and its shareholders as a whole. As stated in the paragraph headed "Basis of determination of consideration" above, the Valuer concluded that the fair value of 70.0% interest in the Target College is approximately RMB615.2 million, as compared to the Consideration of RMB566.0 million. Also, as stated above, less than half of the Consideration shall be paid on or prior to Completion and the change of registered school sponsor to Designated School Sponsor is mainly for administrative convenience to the Group and will make no difference in the effective control of and economic benefits over the Target College by the Group. As such, the Directors consider despite the fact that the Fourth Payment and the Fifth Payment may have to be made even if the Fourth Payment Conditions are not fulfilled, the Consideration and payment terms are in the interest of the Company and its shareholders as a whole.

In light of the above, the Directors (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee in this circular) are of the view that (i) the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and (ii) the Acquisition, if completed, could diversify the business and income stream of the Group, and will facilitate the sustainable growth of the Group in the long run.

INTENTION TO REGISTER THE TARGET COLLEGE AS A FOR-PROFIT PRIVATE SCHOOL

Under the existing regulatory environment and based on the interpretation of the 2016 Decision and the 2021 Implementation Rules, the Target College currently intends to register itself as a for-profit private school, which intention is also shared by the Company. The following sets forth certain major implications of registration as a for-profit private school under the 2016 Decision and the 2021 Implementation Rules:

(a) **Receipt and treatment of operating profits:** the school shall deposit its income into a specific settlement account of its own, and at the end of each financial year the school shall set aside a portion of not less than 10% of its audited annual net income as the development fund of the school. School sponsors are allowed to receive operating profits;

(b) **Registered capital:** the registered capital of a private school shall be paid in full and shall be compatible with its type, level and scale;

(c) **Fees charged to students:** fees are determined based on school operating costs and market demands, and no prior regulatory approvals are required;

(d) **Tax treatment:** the school shall enjoy preferential tax treatment as stipulated by the PRC state; and

(e) **Land:** the school may obtain land use right by means of assignment in accordance with the relevant rules.

For further details of the relevant risks and implications, please refer to the sections headed "Risk Factors Relating to the Target College — Risks Relating to the Business and the Industry — The Target College is subject to uncertainties brought by the 2016 Decision and the 2021 Implementation Rules and other related implementation rules" and "Business of the Target College — The decision on amending the law for promoting private education of the PRC and its implementation rules in 2021" in this circular, respectively.

As at the Latest Practicable Date, the existing laws and regulations in Shandong Province have not set forth any details regarding such registration. The Target College will maintain regular communications with the relevant competent authorities and consult its legal advisers as to PRC laws from time to time to keep itself abreast of the latest regulatory development in this regard. The Target College intends to formulate an action plan with steps to be implemented for registration as a for-profit private school as and when further details regarding the registration is available. Periodic updates will also be provided in the Company's annual and interim reports after Completion to inform Shareholders and potential investors of (i) regulatory updates in relation to the registration of the Target College as a for-profit private school, and (ii) where applicable, the action plan together with steps undertaken for the purpose of registering the Target College as a for-profit private school.

FINANCIAL IMPACT OF THE ACQUISITION

Following Completion, the financial results of the Target College will be consolidated into the consolidated financial statements of the Group.

Possible effect on earnings

For FY2021, the total comprehensive income of the Company was approximately RMB78.0 million as set out in the annual report of the Company for FY2021. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, as if Completion had taken place on 1 January 2021, the pro forma total comprehensive income of the Company for FY2021 would have been approximately RMB385.8 million, and the pro forma profit attributable to owners of the parent for FY2021 would have been approximately RMB360.6 million.

Possible effect on assets and liabilities

The consolidated total assets and total liabilities of the Group as at 31 December 2021 were approximately RMB2,436.5 million and RMB1,163.1 million, respectively, as set out in the annual report of the Company for FY2021. According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, had the Completion been taken place on 31 December 2021, the pro forma total assets and total liabilities of the Enlarged Group would have been increased to approximately RMB3,801.4 million and RMB1,973.0 million, respectively.

III. CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE CONTRACTUAL ARRANGEMENTS

The Target College is a private higher education provider in the PRC. Pursuant to the Negative List promulgated by the National Development and Reform Commission and the Ministry of Commerce of the PRC on 27 December 2021 and came into effect on 1 January 2022, the provision of higher education in the PRC falls within the "restricted" industry for foreign investors, and foreign investors are only allowed to invest in higher education through cooperation with a PRC education institution in compliance with the Regulation on Sino-Foreign Cooperation in Operating Schools (中外合作辦學條例), promulgated by the State Council in 2003 and amended on 18 July 2013, and further amended on 2 March 2019. In addition, the domestic party shall play a dominant role in the cooperation, which means (a) the principal or other chief executive officer of the schools shall be a PRC national; and (b) the representatives of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution.

In relation to the interpretation of "Sino-foreign cooperation", pursuant to the Sino-Foreign Regulation and its implementation rules, the foreign investor in a Sino-foreign joint venture private school which provides higher education mainly for PRC students (a "**Sino-Foreign Joint Venture Private School**") must be a foreign educational institution with relevant qualification that provides high quality education (the "**Private School Qualification Requirements**"). Furthermore, pursuant to the Implementation Opinions of the Ministry of Education of the PRC on Encouraging and Guiding the Entry of Private Capital in the Field 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), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% and the establishment of these schools is subject to the approval of education authorities at the provincial or national level.

In October 2021, with the assistance of the PRC Legal Advisers, the Target College consulted the Education Authority, being the competent authority as advised by the PRC Legal Advisers to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to the Target College. The Target College was advised by the International Cooperation and Communication Division (國際合作與交流處(台港澳事務辦公室)) of the Education Authority that, among others:

(i) no implementing measures or specific guidance were promulgated pursuant to the Sino-Foreign Regulation, including the Qualification Requirement in Shandong Province; and

(ii) as a matter of policy, the Education Authority will not approve an application to establish a new Sino-Foreign Joint Venture Private School with a legal person status.

Accordingly, the PRC legal advisers of the Company have advised that there are no implementation measures or specific guidance promulgated on the Private School Qualification Requirements in accordance with the existing PRC laws. Therefore, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Private School Qualification Requirements. As at the Latest Practicable Date, since there are no implementing measures or specific guidance on the Private School Qualification Requirements, it is therefore not practicable for the Group to seek to apply to reorganise education institutions of the Target College as a Sino-Foreign Joint Venture Private School.

In order to maintain the Target College's business operations while complying with the PRC laws and regulations mentioned above, pursuant to the Acquisition Agreement, (i) prior to Completion, Longkou Zhimin shall enter into the 1st set of Structured Contracts with, among others, Mr. Song, Nanshan Group, and the Target College; and (ii) Longkou Zhimin shall enter into the 2nd set of Structured Contracts with, among others, the Registered shareholder(s), the Designated School Sponsor and the Target College after (a) the establishment of the Designated School Sponsor and (b) approval having been obtained for the Designated School Sponsor to become the sole school sponsor of the Target College after Completion, to enable 70.0% of the economic benefits of the business of the Target College to flow into Longkou Zhimin, to allow the Group to gain effective control of the finance and operations of the Target College, and enjoy 70.0% of the economic benefits generated by the Target College, such that the financial results of the Target College could be consolidated to the consolidated financial statements of the Company.

Please refer to the section headed "Contractual Arrangements" in this circular for detailed discussions on the reasons for adopting the Contractual Arrangements and the principal terms of the Contractual Arrangements.

IV. CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE FRAMEWORK AGREEMENTS

PRINCIPAL TERMS OF THE FRAMEWORK AGREEMENTS

Framework Supply Agreements

The principal terms of the Framework Supply Agreements are set out as follows:

Date: 6 July 2022 (after trading hours)

Parties:

(i) For the Framework Supply Agreement I, the parties are the Target College and Nanshan Group;

(ii) For the Framework Supply Agreement II, the parties are the Target College and Longkou Nanshan;

(iii) For the Framework Supply Agreement III, the parties are the Target College and Longkou Management; and

(iv) For the Framework Supply Agreement IV, the parties are the Target College and Nanshan Development.

Subject matter: Pursuant to the Framework Supply Agreements, the Target College agrees to provide the Group A Services to Nanshan Group, Longkou Nanshan, Longkou Management and Nanshan Development and their respective subsidiaries and/or associates during the term of the Framework Supply Agreements.

Transaction principles: As the Framework Supply Agreements only set out the framework of the transactions to be conducted, individual supply agreements shall be entered into for the specific Group A Services to be supplied by the Target College.

The terms of the individual supply agreements shall be negotiated by the parties at arm's length and on normal commercial terms in the ordinary course of business, and shall set out, among others, the scope and standard of the good and services to be supplied by the Target College, the consideration payable to the Target College, as well as the settlement method.

The scope of the individual supply agreements shall not exceed the scope specified under the Framework Supply Agreements. In the event of conflicts between the terms of the individual supply agreements and the Framework Supply Agreements, the terms of the Framework Supply Agreements shall prevail.

Pricing principles: The price of the Group A Services shall be determined as follows:

(i) the published or listed price of the relevant services from time to time issued by the Target College. Such published or listed price is determined by the Target College on a "cost-plus" basis and will be subject to annual review by the Target College taking into account, among others, the costs of the relevant services to ensure that a reasonable profit is enjoyed by the Target College; and

(ii) where there is no published or listed price, the price which the Target College charges its independent third party customers for the relevant services (where applicable), taking into account, among others, the specifications of the services supplied and the relevant costs of providing such services (where applicable).

For the training services to be provided by the Target College, the Target College will prepare a fee schedule annually listing out the respective training fees per participant for each staff grading according to seniority (e.g. ordinary staff grade, junior managerial grade etc.). In general, the training fees will commensurate with the seniority of the participants, reflecting the complexity and hence costs of the training services to be provided. The training fees as set out in the fee schedule will be determined on a "costs-plus" basis and it is expected that a gross margin of at least 30% will be maintained. The Target College will determine the gross margin with reference to, among others, the fees charged by other market players in respect of the same or similar staff training services, with a view to strike a balance between profitability and market competitiveness. In the event that the relevant customer under the Framework Supply Agreements requires customised staff training services that are not covered by the then existing fee schedule, the Target College will determine the training fees with reference to, among others, (a) the costs of providing the requested training services; (b) the fees charged against independent third party customers in respect of staff training services of similar nature or with similar elements (if any), and the final training fees charged by the Target College shall not be lower than such fees; and (c) the fees charged by other market players in respect of the same or similar staff training services (if any), so as to ensure that the final training fees charged by the Target College will be no less favourable than those offered to, or quoted by, independent third party customers.

With respect to the venue rental services to be provided by the Target College, the Target College will determine the rental fees with reference to, among others, (a) scale and duration of the relevant event proposed to be held at the requested venue; (b) the costs of providing the requested venue including utilities and relevant staff costs; (c) the fees charged against independent third party customers for renting the same venue (if any), and the final rental fees charged by the Target College shall not be lower than such fees; and (d) the market rate of comparable venues in terms of floor area and availability of ancillary equipment, so as to ensure that the final rental fees charged by the Target College will be no less favourable than those offered to, or quoted by, independent third party customers.

With respect to the catering services to be provided by the Target College, they are the restaurants or canteens operated by the Target College which are opened to the public for business. The meals sold in such restaurants or canteens are the same for all customers (including independent third party customers), and are charged according to the same menu prices set by the Target College on a "costs-plus" basis with reasonable margin. Accordingly, the provision of catering services under the Framework Supply Agreements is no less favourable than that with independent third party customers.

Settlement method: The prices payable to the Target College may be settled by periodic payments, in a lump sum or by instalments, or in such other manner as may be agreed between the parties under the individual supply agreements with reference to market practice according to the nature of goods or services supplied.

Termination: The Framework Supply Agreements may be terminated prior to the expiration of their term by mutual written consent of the parties. Upon termination of the Framework Supply Agreements, the relevant individual supply agreements which are still subsisting shall also terminate accordingly.

Term: The Framework Supply Agreements are effective upon fulfilment of the following conditions precedent:

(i) approval(s) by the Board having been obtained for the transactions contemplated under the Framework Supply Agreements; and

(ii) the Completion taking place.

Subject to the fulfilment of the above conditions precedent, the Framework Supply Agreements shall be effective upon Completion and shall expire on 31 December 2024.

Framework Procurement Agreements

The principal terms of the Framework Procurement Agreements are set out as follows:

Date:	6 July 2022 (after trading hours)
Parties:	(i) For the Framework Procurement Agreement I, the parties are the Target College and Nanshan Group; (ii) For the Framework Procurement Agreement II, the parties are the Target College and Longkou Nanshan; and (iii) For the Framework Procurement Agreement III, the parties are the Target College and Nanshan Development.
Subject matter:	Pursuant to the Framework Procurement Agreements, the Target College will procure the Group B Goods and Services from Nanshan Group, Longkou Nanshan and Nanshan Development and their respective subsidiaries and/or associates during the term of the Framework Procurement Agreements.
Transaction principles:	As the Framework Procurement Agreements only set out the framework of the transactions to be conducted, individual procurement agreements shall be entered into for the specific Group B Goods and Services to be procured by the Target College. The terms of the individual procurement agreements shall be negotiated by the parties at arm's length and on normal commercial terms in the ordinary course of business, and shall set out, among others, the scope and standard of the good and services to be procured by the Target College, the consideration payable by the Target College, as well as the settlement method. The scope of the individual procurement agreements shall not exceed the scope specified under the Framework Procurement Agreements. In the event of conflicts between the terms of the individual procurement agreements and the Framework Procurement Agreements, the terms of the Framework Procurement Agreements shall prevail.

Pricing principles: The price of the Group B Goods and Services shall be determined with reference to the price charged by at least two independent third party suppliers who offer the same or similar type of goods or services under normal commercial terms, taking into account the quantity of the goods or the specifications of the services procured (where applicable).

As the goods to be procured by the Target College, including staff uniforms, furniture and fixtures such as desks and chairs, gifts and souvenirs such as desktop ornaments, and gasoline, petrol and diesel, are all normal goods and commodities where independent third party suppliers are available in the market, the Target College will seek and compare quotes for similar products from at least two independent third party suppliers in the market before making a purchase in order to determine if the prices and terms offered by the relevant supplier under the Framework Procurement Agreements are comparable to those offered by such independent third party suppliers, and assess and review their fairness and reasonableness. If the Target College obtains more reasonable prices and terms for similar products under the Framework Procurement Agreements from independent third party suppliers, the Target College will negotiate with the relevant supplier under the Framework Procurement Agreements for comparable price and terms for such products, and has the full discretion not to procure from the relevant supplier under the Framework Procurement Agreements.

With respect to the repairing and maintenance services such as teaching equipment repairment and school facilities maintenance, campus sanitary and cleaning services, gardening and greening services such as lawn maintenance, laboratory testing services and catering and accommodation services to be procured by the Target College, independent third party suppliers are likewise available in the market. Similarly, the Target College will seek and compare quotes for similar services from at least two independent third party suppliers in the market before making a purchase in order to determine if the prices and terms offered by the relevant supplier under the Framework Procurement Agreements are comparable to those offered by such independent third party suppliers, and assess and review their fairness and reasonableness. If the Target College obtains more reasonable prices and terms for similar services under the Framework Procurement Agreements from independent third party suppliers, the Target College will negotiate with the relevant supplier under the Framework Procurement Agreements for comparable price and terms for such services, and has the full discretion not to procure from the relevant supplier under the Framework Procurement Agreements.

For the venue rental services to be procured by the Target College, the Target College will seek and compare quotes for at least two comparable venues (in terms of floor area and availability of ancillary equipment) in the market from independent third party suppliers as and when the need for external venue arises, so as to determine if the prices and terms offered by the relevant supplier under the Framework Procurement Agreements are comparable to those offered by such independent third party suppliers, and assess and review their fairness and reasonableness. If the Target College obtains more reasonable prices and terms for comparable venues under the Framework Procurement Agreements from independent third party suppliers, the Target College will negotiate with the relevant supplier under the Framework Procurement Agreements for comparable price and terms for such venues, and has the full discretion not to procure from the relevant supplier under the Framework Procurement Agreements.

Settlement method:	The prices payable by the Target College shall be settled in accordance with the terms of the individual procurement agreements, to be determined reference to market practice according to the nature of goods or services supplied.
Termination:	The Framework Procurement Agreements may be terminated prior to the expiration of their term by mutual written consent of the parties. Upon termination of the Framework Procurement Agreements, the relevant individual procurement agreements which are still subsisting shall also terminate accordingly.
Term:	The Framework Procurement Agreements are effective upon fulfilment of the following conditions precedent: (i) approval(s) by the Board having been obtained for the transactions contemplated under the Framework Procurement Agreements; (ii) approval(s) by the Independent Shareholders having been obtained for the transactions contemplated under the Framework Procurement Agreements; and (iii) the Completion taking place. Subject to the fulfilment of the above conditions precedent, the Framework Procurement Agreements shall be effective upon Completion and shall expire on 31 December 2024.

ACTUAL HISTORICAL TRANSACTION AMOUNTS

The following table summarises the aggregate amount of the historical goods and services supply and procurement transactions between the Target College on one hand and the Connected Transaction Counterparties and their subsidiaries and/or associates on the other hand:

Category	**For the year ended 31 December**			**For the three months ended 31 March**
	2019	**2020**	**2021**	**2022**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount of supply by the Target College *(Note 1)*	1,395	14,021	3,825	84
Amount of procurement by the Target College *(Note 2, 3)*	23,240	21,269	18,788	4,489

Notes:

(1) The relatively higher amount of supply by the Target College for the year ended 31 December 2020 was primarily attributable to a relatively large scale staff training services provided to a subsidiary of Nanshan Group during the year ended 31 December 2020, where such relatively large scale staff training services are only occasionally required by the said customer. As no staff training services of similar scale had been provided to the said customer during the year ended 31 December 2021, the amount of supply by the Target College for the same period decreased to approximately RMB3.8 million. During the three months ended 31 March 2022, social distancing measures had been implemented by the local government to prevent the spread of COVID-19, such that the Target College had postponed or cancelled the group staff training courses it provided. There was also a decrease in the catering services provided by the Target College during the said period due to the Lunar New Year long holidays. As a result, the amount of supply by the Target College for the three months ended 31 March 2022 amounted to approximately RMB0.1 million only.

(2) In general, the students of the Target College are enrolled and registered during September and October of each year. The Target College would generally make a substantial portion of its procurement in the fourth quarter of each year based on the number of students enrolled, and hence the projected needs of the relevant goods and services for the corresponding school year.

(3) For the years ended 31 December 2019 and 2020, the procurement of the Target College included staff training fee of approximately RMB6.4 million and RMB2.6 million, respectively, incurred for the preparation of new courses to be offered by the Target College. The Target College does not expect to procure similar staff trainings from the Connected Transaction Counterparties in future. Excluding the aforesaid training fees, the historical procurement amount of the Target College would have been approximately RMB16.8 million, RMB18.7 million and RMB18.8 million for the years ended 31 December 2019, 2020 and 2021, respectively, which were generally in-line with the number of student enrollment of the Target College during the said periods.

ANNUAL CAPS AND BASIS OF DETERMINATION

The proposed annual caps for the Framework Supply Agreements and Framework Procurement Agreements for the five months ending 31 December 2022 and the years ending 31 December 2023 and 2024 are set out below:

Category	For the five months ending 31 December 2022 *(Note)*	For the year ending 31 December 2023	2024
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Framework Supply Agreements	3,000	4,350	4,800
Framework Procurement Agreements	18,500	33,000	37,000

Note: The proposed annual caps for the five months ending 31 December 2022 are for illustrative purpose only, assuming Completion will take place on 1 August 2022. Pursuant to the terms of the Framework Agreements, the commencement date of the Framework Agreements shall be the date of Completion, assuming other conditions precedent have already been fulfilled by then. For further details, please refer to the section headed "Continuing Connected Transactions" in this circular.

The above proposed annual caps for the Framework Supply Agreements and Framework Procurement Agreements are determined with reference to, among others, the followings:

(i) the historical transaction amounts in relation to the supply and procurement of goods and services by the Target College. In this connection, as compared to the year ended 31 December 2019, there was a decrease in the amount of procurement by the Target College for the year ended 31 December 2020, primarily due to the outbreak of COVID-19 in 2020 which resulted in the temporary closure of campus of the Target College, and hence a decrease in the overall procurement of the relevant goods and services. With respect to the actual transaction amount of supply by the Target College for the three months ended 31 March 2022, there was a decrease in the provision of staff training courses by the Target College in light of the social distancing measures implemented by the local government for the prevention of the outbreak of COVID-19. Coupled with the decrease in the catering services provided by the Target College due to the Lunar New Year long holidays, the amount of supply by the Target College during the three months ended 31 March 2022 amounted to approximately RMB0.1 million only. Nevertheless, given that the social distancing measures had been lifted by the local government as at the Latest Practicable Date, and that the Target College had fully resumed the provision of staff training courses, coupled with the reasons set out in paragraphs (ii) & (iv) below, the Target College considers the annual caps of the Framework Supply Agreements as set out above to be justifiable. With respect to the actual transaction amount of procurement by the Target College for the three months ended 31 March 2022, as students of the Target College are generally enrolled and registered during September and October of each year, the Target College would generally make a substantial portion of its procurement in the fourth quarter of each year based on the number of students enrolled, and the projected needs of the relevant goods and services for the corresponding school year, such that the amount of procurement by the Target College during the same period amounted to approximately RMB4.5 million. In light of the approximately 13.5% increase in the Target College's enrollment for the school year 2021/2022 as compared to that of the school year 2020/2021, and the reasons set out in paragraphs (ii) & (iii) below, the Target College considers the annual caps of the Framework Procurement Agreements as set out above to be justifiable;

(ii) the growth of the consumer price index of the PRC ("**CPI**") of approximately 2% on average as published by the National Bureau of Statistics, which is also an indication of the inflation rate in the PRC. It is assumed that the CPI will grow at approximately the same rate from 2022 to 2024, and such assumption has also been reflected in the increasing annual caps under the Framework Supply Agreements and the Framework Procurement Agreements;

(iii) the expected scale of operations of the Target College for the five months ending 31 December 2022 and years ending 31 December 2023 and 2024. It is expected that the Target College will continue to expand its scale of operations and the student enrollment of the Target College is expected to grow in the coming years. In this connection, the number of student enrollment of the Target College is expected to grow at an average rate of 8.6% per school year with reference to historical growth. Correspondingly, the Target College will have increasing operational needs to cope with the expected increase in student enrollment, which will in turn drive the demand for the Group B Goods and Services. Whilst such operational needs are positively correlated to the increase in student enrollment, certain of them are expected to increase in a progressive manner not squarely proportionate to the expected growth rate of student enrollment, in part due to their nature. For instance, the demand for external venues are more directly related to the number of off-campus teaching activities, which is in turn affected by factors including curriculum design and teaching schedules, on top of number of student enrollment. Further, going forward, the Target College also intends to outsource certain ancillary operations including campus sanitary and cleaning, and dormitory management. The expected increase in operational need for such services is in turn driven by, among others, the expected growth in the Target College's student enrollment, as well as the expected increase in the Target College's scale of operations. In addition to the above, the increase in student enrollment would expedite the wear and tear of school facilities, which would also drive the Target College's demand for school facilities maintenance services. In this connection, the Target College's expected demand for school facilities maintenance services each year is primarily based on the ages of the facilities, and adjusted for additional wear and tear due to the growth in student enrollment. In light of the aforesaid, the procurement needs of the Target College are expected to increase correspondingly, albeit not squarely proportionate to the expected growth in student enrollment, thus resulting in the increasing annual caps under the Framework Procurement Agreements; and

(iv) with respect to the Framework Supply Agreements, the expected needs of the Connected Transaction Counterparties and their subsidiaries and/or associates taking into account, among others, their expected development plans and the expected increment, mobility, turnover and capabilities required of their staff, based on the Target College's communications with the Connected Transaction Counterparties.

REASONS AND BENEFITS OF THE FRAMEWORK AGREEMENTS

The transactions contemplated under the Framework Agreements will be conducted in the ordinary and usual course of business of the Target College.

In view of the long-standing and amicable business relationship between the Target College and the Connected Transaction Counterparties, the Connected Transaction Counterparties are reliable business partners and future business cooperation between the Target College and the Connected Transaction Counterparties will be beneficial to the operations of the Target College.

With respect to the Framework Supply Agreements, the Directors consider that:

(i) the terms and conditions of the Framework Supply Agreements have been negotiated on an arm's length basis and are normal commercial terms that are fair and reasonable;

(ii) the proposed annual caps for the Framework Supply Agreements for the five months ending 31 December 2022 and years ending 31 December 2023 and 2024 are fair and reasonable; and

(iii) the transactions contemplated under the Framework Supply Agreements are in the interest of the Company and the Shareholders as a whole.

As regards the Framework Procurement Agreements, the Directors (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee in this circular) consider that:

(i) the terms and conditions of the Framework Procurement Agreements have been negotiated on an arm's length basis and are normal commercial terms that are fair and reasonable;

(ii) the proposed annual caps for the Framework Procurement Agreements for the five months ending 31 December 2022 and years ending 31 December 2023 and 2024 are fair and reasonable; and

(iii) the transactions contemplated under the Framework Procurement Agreements are in the interest of the Company and the Shareholders as a whole.

For further details of the continuing connected transactions of the Target College subsequent to the Completion and the internal control measures in this regard, please refer to the section headed "Continuing Connected Transactions" in this circular.

V. GENERAL INFORMATION ON THE PARTIES TO THE ACQUISITION AND THE FRAMEWORK AGREEMENTS

THE GROUP

The Company is an investment holding company. The Group is principally engaged in finance leasing and the provision of finance leasing and advisory services to its customers. The Group targets customers in the healthcare, aviation and public infrastructure industries in the PRC.

THE VENDORS

Nanshan Group is a company established in the PRC with limited liability. Nanshan Group, together with its subsidiaries, are a conglomerate with principal businesses encompassing aluminium, textile apparel, petrochemical, finance, aviation, real estate, healthcare, education and tourism. As at the Latest Practicable Date, Nanshan Group was owned as to 51% by the Nanshan Village Committee and 49% by Mr. Song Jianbo. Given that Mr. Song Jianbo is the spouse of Ms. Sui, a controlling shareholder of the Company, Nanshan Group is an associate of Ms. Sui and is therefore a connected person under Rule 14A.12 of the Listing Rules. Further, as Mr. Song is the father-in-law of Ms. Sui, Mr. Song is a connected person under Rule 14A.21 of the Listing Rules.

As at the date of this circular, Mr. Song is the registered school sponsor of the Target College as designated by Nanshan Group, while Nanshan Group maintains control over the Target College, and the financial results of the Target College are consolidated into the consolidated financial statements of Nanshan Group.

THE NANSHAN VILLAGE COMMITTEE

Nanshan Village Committee is a special legal person registered with the local bureau of civil affairs in Longkou. According to the Law on the Organisation of Village Committees of the PRC (中華人民共和國村民委員會組織法), Nanshan Village Committee is responsible for the villagers' council and the villagers' representative council and report work to them, and it is a primary-level collective self-governance organisation which operates for the villagers' self-governance, self-education and self-service.

Nanshan Village Committee administers public affairs and matters for public welfare, mediates civilian disputes, assists in the maintenance of social security and reverts villagers' opinions, requests and suggestions to the People's government.

Nanshan Village Committee consists of six members. These members are elected by the representatives of the villagers in Nanshan Village. There are no beneficiary owners for Nanshan Village Committee.

THE TARGET COLLEGE

Overview

The Target College, approved to be upgraded to an undergraduate college from an associate college in 2005 on the basis of Shandong Nanshan Vocational and Technical College* (山東南山職業技術學院) and located in Longkou City, Shandong Province, the PRC (中國山東省龍口市), is a private institution of higher education that provides undergraduate and junior college diploma programmes approved by the Ministry of Education of the PRC. In 2018, the Target College was recognised as one of the Model Colleges of Experimental Innovation and Entrepreneurship in the Shandong Province, the PRC (山東省新創業典型經驗高校) by the Department of Human Resources and Social Security of the Shandong Province, the PRC (山東省人力資源和社會保障廳). During the 2021/2022 school year, the Target College offers 49 undergraduate programmes and 40 junior college diploma programmes with a total of 30 faculties. During the 2021/2022 school year, the total number of student enrollment was more than 29,000. The tuition fee charged by the Target College for the 2021/2022 school year ranged from approximately RMB8,200 to RMB20,800 (depending on majors).

During the Track Record Period, the revenue of the Target College was approximately RMB301.1 million, RMB324.5 million, RMB356.5 million and RMB90.7 million, respectively, and its profit and total comprehensive income for the year amounted to approximately RMB107.2 million, RMB107.9 million, RMB102.0 million and RMB31.5 million, respectively.

Principal business activities of the Target College

During the Track Record Period, the Target College offered in aggregate 49 undergraduate programmes and 40 junior college diploma programmes, covering six academic disciplines and 11 college diploma disciplines categorised by the MOE, respectively. It generally takes four years of full-time study for students enrolled in the Target College's undergraduate programmes to complete their degree, while it generally takes three years of full-time study to complete the Target College's junior college diploma programmes.

For the 2021/2022 school year (up to 31 May 2022), approximately 48.3% of the Target College's students enrolled in the undergraduate programmes, while approximately 51.7% of the Target College's students enrolled in the junior college diploma programmes. Except when the students are taking up off-campus internships, the Target College generally requires all of its students to live in school dormitories, and boarding fees are charged accordingly.

The following table sets forth the detailed information regarding the number of students enrolled in the Target College for each school year from the 2018/2019 school year to the 2021/2022 school year (up to 31 May 2022):

	Student enrolment			
	2018/2019	**2019/2020**	**2020/2021**	**2021/2022 (up to 31 May 2022)**
Target College	22,778	25,379	25,596	29,047
Full-time	22,595	25,171	25,423	28,959
Part-time	183	208	173	88

The following table sets forth the number of new students and number of students who dropped out in each school year from the 2018/2019 school year to the 2021/2022 school year (up to 31 May 2022):

	School years			
	2018/2019	**2019/2020**	**2020/2021**	**2021/2022 (up to 31 May 2022)**
Number of new students	7,501	7,886	6,975	10,746
Number of students who dropped out	356	361	470	227

The following table sets forth the listed tuition fees and boarding fees of the Target College for each school year from the 2018/2019 school year to the 2021/2022 school year:

	Listed tuition fees in each school year				Boarding fees in each school year			
	2018/2019	**2019/2020**	**2020/2021**	**2021/2022**	**2018/2019**	**2019/2020**	**2020/2021**	**2021/2022**
				(RMB)				
Target College								
Undergraduate programmes	11,000–19,200	11,000–20,800	12,800–20,800	12,800–20,800	900–1,300	900–1,300	900–1,300	900–2,000
Junior college diploma programmes	8,200–9,300	8,200–13,300	8,200–13,300	8,200–13,300	900–1,300	900–1,300	900–1,300	900–2,000

Please refer to the section headed "Business of the Target College" in this circular for detailed discussions on the operations of the Target College.

Customers and suppliers of the Target College

The Target College's customers primarily consist of students. The Target College did not have any single customer who accounted for more than 5% of the revenue for each year during the Track Record Period.

The Target College's suppliers primarily consist of suppliers of daily-consumables and booksellers. During the Track Record Period, purchases from the Target College's five largest suppliers amounted to approximately RMB54.8 million, RMB53.6 million, RMB65.1 million and RMB18.3 million, respectively, accounting for approximately 60.2%, 60.1%, 54.1% and 83.7% of the Target College's total purchases for the corresponding period. During the Track Record Period, purchases from the Target College's largest supplier amounted to approximately RMB26.2 million, RMB25.1 million, RMB25.9 million and RMB8.6 million, respectively, accounting for approximately 28.8%, 28.1%, 21.5% and 39.5% of the Target College's total purchases for the corresponding year.

For further details, please refer to the section headed "Business of the Target College — Customers and Suppliers" in this circular.

Competitive strengths of the Target College

The competitive strengths of the Target College include the following:

(i) in-depth integration of education and industry, and effective school-enterprise collaboration that enhance the career prospect of the Target College's graduates;

(ii) advanced application-oriented education and talent training model and a cradle for talents with technical skills;

(iii) diversified curriculums and quality education infrastructures to closely track the needs of industrial development and transformation in Shandong Province and the PRC to cultivate high-quality, innovative, professional and technical talents; and

(iv) experienced management team and high-quality teaching staff that support the quality education of application-oriented talents cultivation.

For further details, please refer to the section headed "Business of the Target College — Competitive Strengths" in this circular.

Business strategies of the Target College

The business strategies of the Target College include the following:

(i) continue to expand the business operations of the Target College and diversify its revenue sources;

(ii) continue to strengthen the school-enterprise collaboration business model of the Target College;

(iii) continue to strengthen and develop the research capabilities of the Target College; and

(iv) continue to improve the quality of the teachers of the Target College.

For further details, please refer to "Business of the Target College — Business Strategies" in this circular.

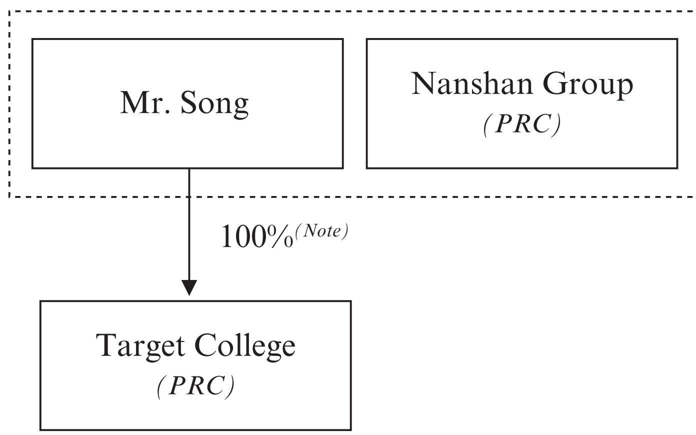
Management of the Target College

During the Track Record Period and up to the date of this circular, the principal and vice-principals of the Target College have assumed responsibilities for the day-to-day operation and key decision making of the Target College, and they contributed directly to the results of the Target College. In particular, in accordance with the articles of the Target College, the principal has assumed several key functions including, among others, (i) the day-to-day operation of the Target College; (ii) implementing the annual business plans of the Target College; (iii) formulating plans for the internal organisation structure of the Target College; and (iv) formulating internal management system of the Target College. In this connection, the core management team of the Target College responsible for the management and operation of the Target College during the said period and upon Completion include Mr. Wu Guohua (吳國華), Mr. Liu Chenggang (劉承鋼), Mr. Liang Yubing (梁玉冰), Mr. Zhang Jisong (張吉松), Mr. Luo Zhenming (羅振明), Mr. Qiao Renjie (喬仁潔), Mr. Yang Wanli (楊萬利), Mr. Xu Huizhong (徐惠忠) and Mr. Chen Zhongquan (陳忠全). Please refer to the section headed "Core Management Team of the Target College" in this circular for the biographic details of each member of the core management team. Save for the overlapping roles of principal/vice principal and director of the Target College of Mr. Wu Guohua, Mr. Qiao Renjie, Mr. Yang Wanli and Mr. Xu Huizhong, each of them is an independent third party of (a) the Nanshan Group and its directors; and (b) the board of directors of the Target College. For the avoidance of doubt, Mr. Song, the Nanshan Village Committee and the directors or senior management members of the Nanshan Group were not involved in the management and operation of the Target College during the said period. Further, none of the members of the core management team of the Target College has any role in or relationship with the Nanshan Group and its associates.

During the Track Record Period and up to the date of this circular, the members of the board of directors of the Target College include Mr. Song, Mr. Song Yinghao (宋英豪) (appointed in March 2021), Mr. Wu Guohua, Mr. Liu Chenggang (resigned as director in April 2022), Ms. Meng Xiangnan (孟祥楠) (resigned as director in July 2021), Mr. Cheng Rence (程仁策) (resigned as director in July 2021), Mr. Qu Yongyin (曲永印) (appointed in March 2021 and resigned as director in April 2022), Mr. Xu Huizhong (appointed in March 2021), Mr. Zhu Pengcheng (朱鵬程) (appointed in March 2021), Mr. Wang Yuhai (王玉海) (redesignated as supervisor in March 2021), Mr. Liang Yubing (redesignated as supervisor in March 2021), Mr. Sui Rongqiong (隋榮慶) (appointed in July 2021), Ms. Song Zuolan (宋作蘭) (appointed in July 2021), Mr. Qiao Renjie (appointed in April 2022) and Mr. Yang Wanli (appointed in April 2022).

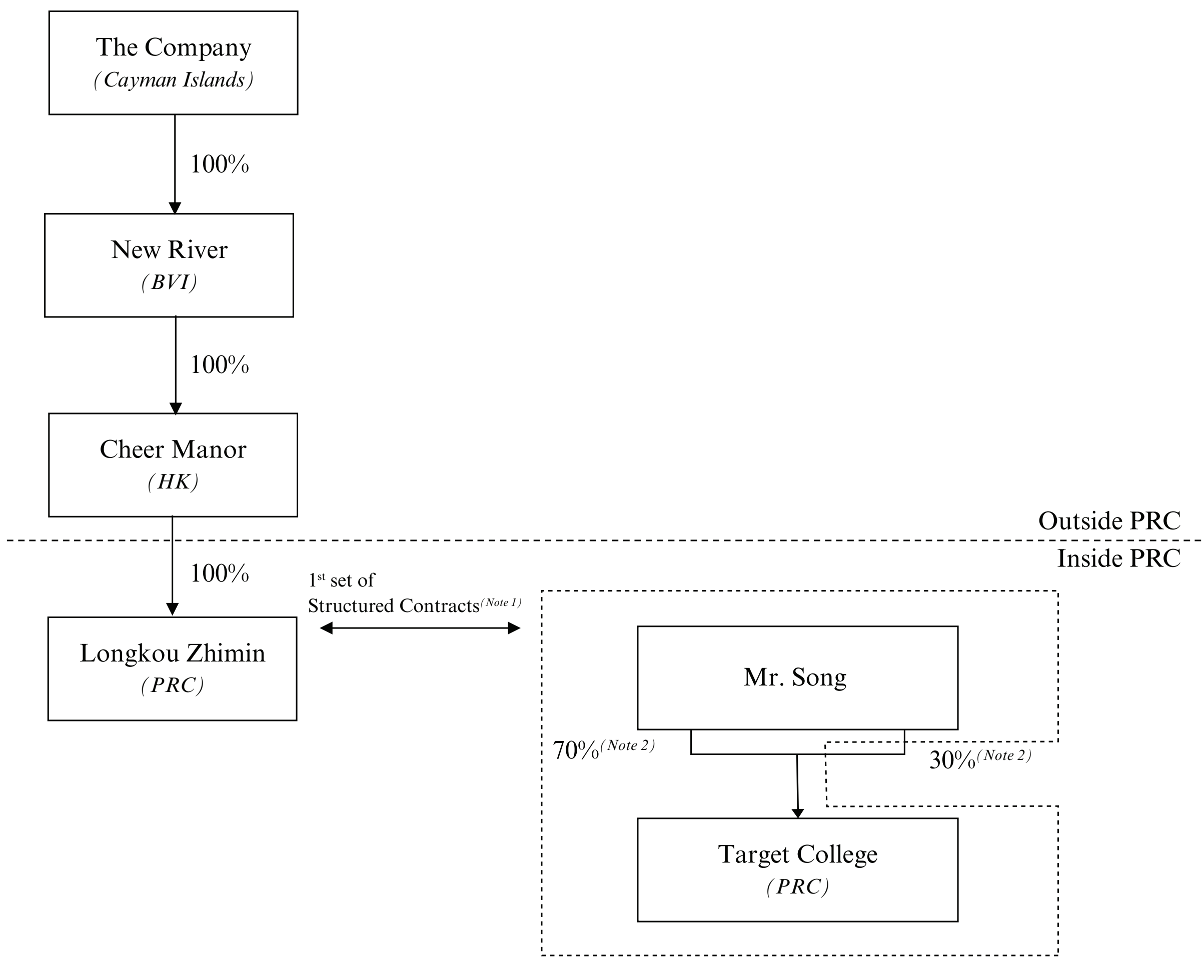
Structure Chart of the shareholding/school sponsors' interests of the Target College

(a) Before Completion and the entering into of the Structured Contracts



Note: Mr. Song is designated by Nanshan Group as the sole registered school sponsor of the Target College.

(b) After Completion and the entering into of the 1st set of Structured Contracts

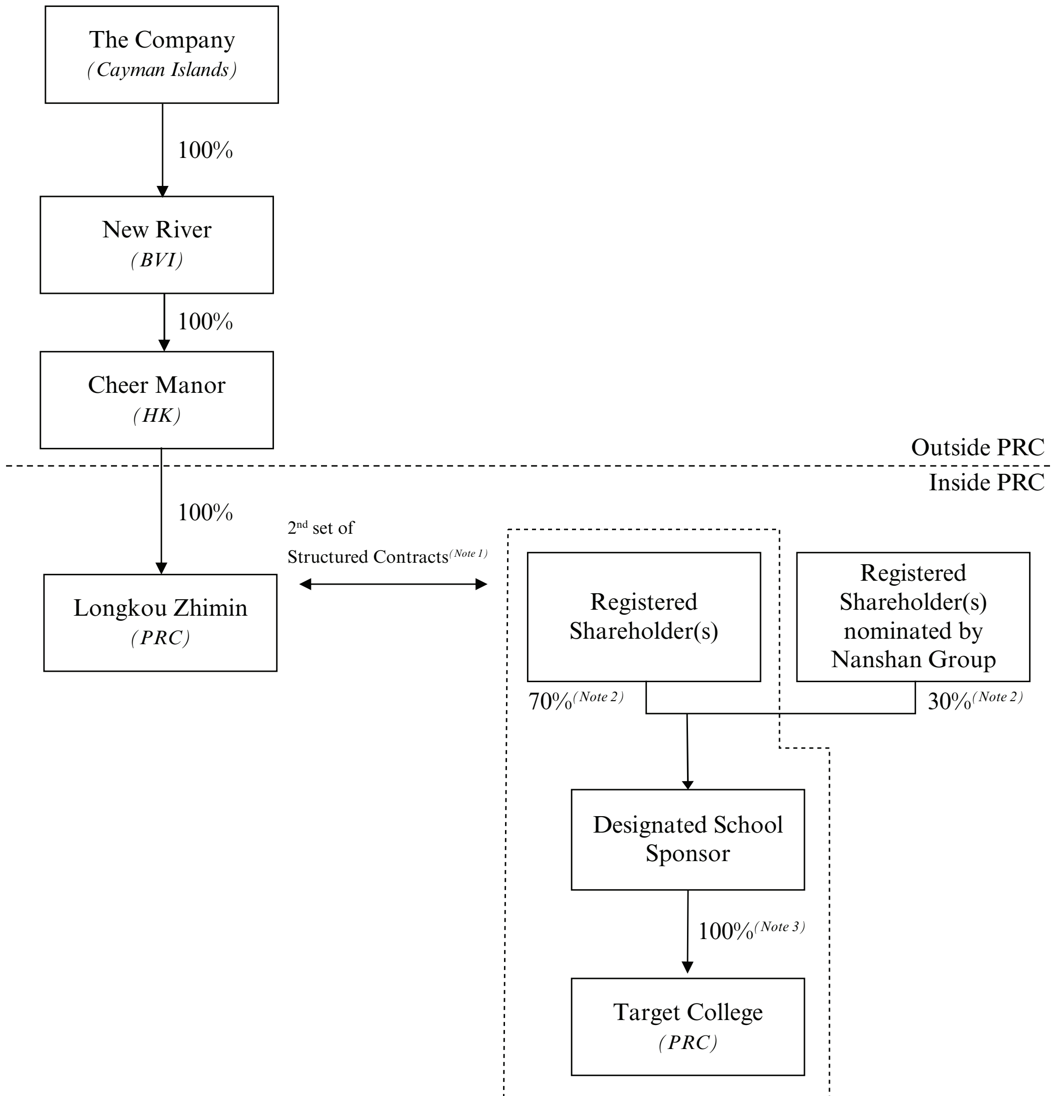


Notes:

(1) As one of the Completion Conditions, Longkou Zhimin will enter into the 1st set of Structured Contracts with, among others, Mr. Song, Nanshan Group and the Target College. Please refer to the section headed "Contractual Arrangements" in this circular for further details of the 1st set of Structured Contracts.

(2) Upon Completion and the entering into of the 1st set of Structured Contracts, Mr. Song will remain as the sole registered school sponsor of the Target College and the Group will enjoy 70.0% of the economic benefits generated by the Target College pursuant to the 1st set of Structured Contracts. On the other hand, Nanshan Group will enjoy the remaining 30.0% economic benefits generated by the Target College through Mr. Song.

(c) After the entering into of the 2nd set of Structured Contracts



Notes:

(1) Once the Designated School Sponsor is established and approval has been obtained for the Designated School Sponsor as the sole registered school sponsor of the Target College, Longkou Zhimin will enter into the 2nd set of Structured Contracts with among others, the Registered Shareholder(s), the Designated School Sponsor and the Target College. Please refer to the section headed "Contractual Arrangements" in this circular for further details of the 2nd set of Structured Contracts.

(2) The percentage denotes the shareholding in the Designated School Sponsor. Upon the establishment of the Designated School Sponsor and the entering into of the 2nd set of Structured Contracts, the Group will continue to enjoy 70.0% of the economic benefits generated by the Target College pursuant to the 2nd set of Structured Contracts. On the other hand, Nanshan Group will continue to enjoy the remaining 30.0% economic benefits generated by the Target College through the Registered Shareholder(s) nominated by it who would hold 30.0% equity interest in the Designated School Sponsor.

(3) Upon obtaining the relevant approval(s), the Designated School Sponsor will become the sole registered school sponsor of the Target College.

Financial information of the Target College

For details of the financial information of the Target College and its basis of preparation, please refer to the Accountants' Report on the Target College set out in Appendix I to this circular.

The following table sets out a summary of the financial information of the Target College for the Track Record Period, as extracted from the Accountants' Report on the Target College set out in Appendix I to this circular:

	For the year ended 31 December			For the three months ended 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	301,120	324,535	356,497	90,654
Gross profit	130,182	142,777	129,983	33,030
Profit before taxation	107,208	107,877	102,029	31,480
Net profit after taxation	107,208	107,877	102,029	31,480

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	968,999	1,081,143	1,062,194	969,952
Total liabilities	(548,394)	(552,661)	(431,683)	(307,961)
Net assets	420,605	528,482	630,511	661,991

	For the year ended 31 December			For the three months ended 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash from (used in) operating activities	159,193	165,390	187,059	(71,887)
Net cash (used in) from investing activities	(171,591)	(141,273)	(2,165)	28,593
Net cash from (used in) financing activities	6,483	(27,128)	(139,484)	—
Net (decrease) increase in cash and cash equivalents	(5,915)	(3,011)	45,410	(43,294)
Cash and cash equivalents at the beginning of the year/period	9,439	3,524	513	45,923
Cash and cash equivalents at the end of the year/period	3,524	513	45,923	2,629

The following table sets forth a summary of the key financial ratios of the Target College:

	For the year ended 31 December			For the three months ended 31 March
	2019	2020	2021	2022
Net profit margin	35.6%	33.2%	28.6%	34.7%
Return on capital	25.5%	20.4%	16.2%	N/A
Return on total assets	11.1%	10.0%	9.6%	N/A
Interest coverage ratio	38.1	9.6	20.1	74.4

	As at 31 December			As at 31 March
	2019	2020	2021	2022
Current ratio	69.7%	81.6%	41.5%	29.4%
Gearing ratio	23.4%	15.9%	N/A	N/A
Net debt to capital ratio	20.8%	14.8%	N/A	N/A

For detailed financial analysis of the Target College, please refer to the section headed "Financial Information of the Target College" in this circular.

The Target College was established by the Nanshan Group and hence there is no original acquisition cost. Since the establishment of the Target College and up to the Latest Practicable Date, the Nanshan Group had contributed RMB200.0 million to the capital of the Target College, which also represented the total amount of paid-up capital of the Target College as at the Latest Practicable Date. Upon Completion and pursuant to the 1^{st} set of Structured Contracts, the Company will gain effective control of the finance and operations of the Target College, and will enjoy 70.0% of the economic benefits generated by the Target College, notwithstanding the lack of registered ownership of school sponsorship interest in the Target College. Further, the financial results of the Target College will also be consolidated to the consolidated financial statements of the Group.

Non-compliance

During the Track Record Period, the Target College had certain non-compliance incidents relating to (i) occupation of one parcel of land without title certificates, (ii) failure to obtain the requisite construction planning permit, construction permit or construction project completion acceptance check, (iii) failure to complete the fire control design review and approval and fire control completion acceptance check and (iv) failure to make full contribution of social insurance and housing provident fund for certain employees. Please refer to the section headed "Business of the Target College — Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this circular for details. Under the current regulations in Shandong Province, there are no provisions explicitly stipulating that an existing private school is not entitled to register as a For-profit Private School if it has had any historical non-compliance of the laws or regulations.

Risk factors

There are certain risks involved in the Target College's operations and in connection with the Acquisition: (i) risks relating to the Acquisition; (ii) risks relating to the business and the industry; (iii) risks relating to the Contractual Arrangements; (iv) risks relating to doing business in China; and (v) risks relating to this circular. Detailed discussions of the risk factors are set forth in "Risk Factors Relating to the Target College" in this circular.

LONGKOU NANSHAN

Longkou Nanshan is a company established in the PRC with limited liability. Longkou Nanshan, together with its subsidiaries, are principally engaged in a range of businesses from catering, exhibition, hospitality to production and sales of construction materials. As at the Latest Practicable Date, Longkou Nanshan was owned as to approximately 83.3% by Mr. Song, and 16.7% by Ms. Lv, the spouse of Mr. Song.

NANSHAN DEVELOPMENT

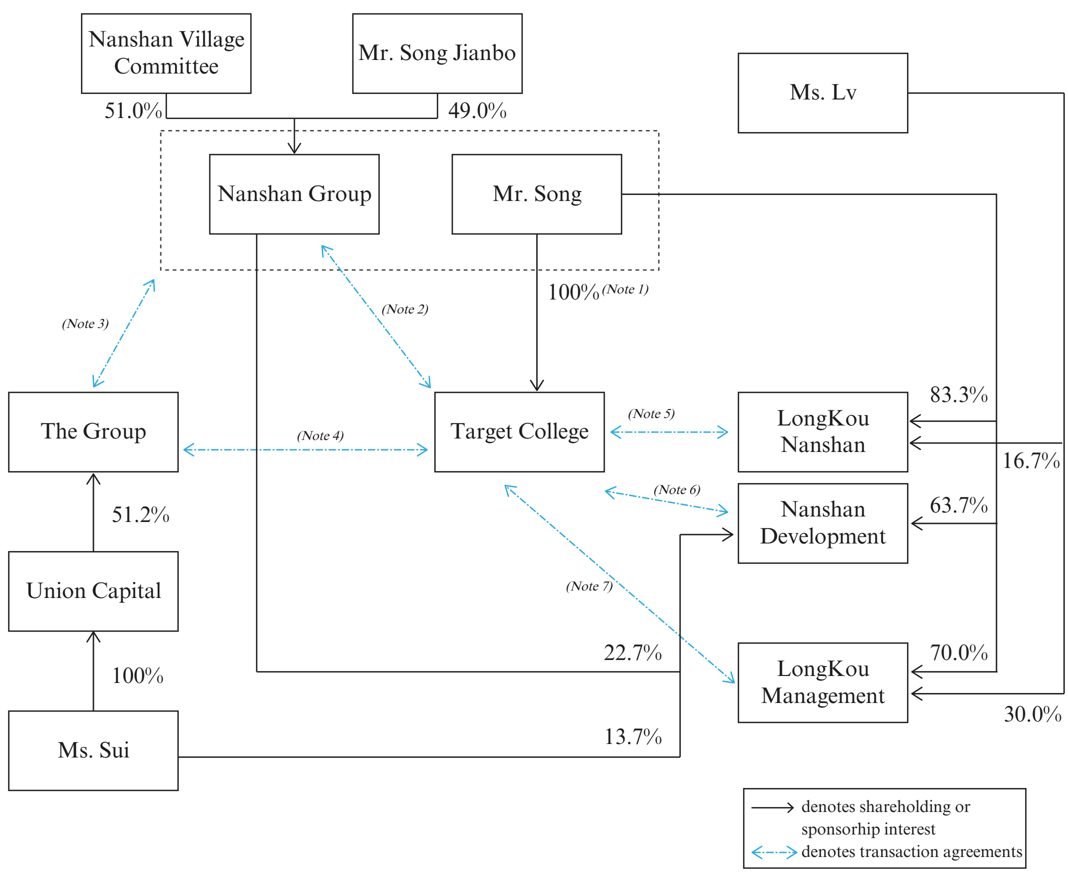
Nanshan Development is a company established in the PRC with limited liability, and is principally engaged in property management and property development and sales. As at the Latest Practicable Date, Nanshan Development was owned as to approximately 63.7% by Mr. Song, 22.7% by Nanshan Group and 13.7% by Ms. Sui.

LONGKOU MANAGEMENT

Longkou Management is a company established in the PRC with limited liability and is principally engaged in enterprise management. As at the Latest Practicable Date, Longkou Management was owned as to 70.0% by Mr. Song and 30.0% by Ms. Lv.

SHAREHOLDING STRUCTURE OF THE COUNTERPARTIES OF THE ACQUISITION AGREEMENT AND THE FRAMEWORK AGREEMENTS

The following sets forth the shareholding structure of the counterparties of the Acquisition Agreement and the Framework Agreements as at the Latest Practicable Date:



Notes:

(1) Mr. Song is designated by the Nanshan Group as the sole registered school sponsor of the Target College.

(2) The transaction agreements include (a) the Framework Procurement Agreement I, and (b) the Framework Supply Agreement I.

(3) The transaction agreements include (a) the Acquisition Agreement, and (b) the Structured Contracts. Please refer to the section headed "Contractual Arrangements — Operation of the Contractual Arrangements" in this circular for further illustrations on the flow of economic benefits under the Structured Contracts.

(4) The transaction agreements include (a) the Acquisition Agreement, and (b) the Structured Contracts.

(5) The transaction agreements include (a) the Framework Procurement Agreement II, and (b) the Framework Supply Agreement II.

(6) The Framework Supply Agreement IV.

(7) The transaction agreements include (a) the Framework Procurement Agreement III, and (b) the Framework Supply Agreement III.

VI. RELATIONSHIP BETWEEN THE ENLARGED GROUP AND THE COMPANY'S CONNECTED PERSONS

Upon Completion, the business of the Enlarged Group will comprise (i) the existing finance leasing business carried out by the Group, and (ii) the education business as carried out by the Target College. Based on the analysis set forth below, the Directors do not consider there to be any undue reliance by the Enlarged Group on the Company's connected persons, namely the Nanshan Group and the associates of Mr. Song, and their respective subsidiaries (the "**Nanshan Entities**").

FINANCE LEASING BUSINESS

In September 2019, the Group and Nanshan Group entered into a finance leasing framework agreement (the "**Finance Leasing Framework Agreement**"). The Finance Leasing Framework Agreement and the finance leasing services provided thereunder were approved and endorsed by the Independent Shareholders in December 2019. During the Track Record Period, the actual transaction amount as stipulated in the relevant agreements under the Finance Leasing Framework Agreement was RMB274.5 million, RMB834.1 million and RMB774.7 million, respectively. The finance lease income derived from Nanshan Group and its related companies amounted to RMB1.6 million, RMB80.9 million and RMB99.0 million, respectively, for the years ended 31 December 2019, 2020 and 2021 and accounted for approximately 0.6%, 32.6% and 42.7% of the Group's total revenue for the same periods. The Directors consider that the terms under the Finance Leasing Framework Agreement are fair and reasonable, and the transactions contemplated under the Finance Leasing Framework Agreement are on normal commercial terms or better, and in the ordinary and usual course of business of the Group. Other than the above, there are no other transactions between the Group and its connected person which are discloseable under Chapter 14A of the Listing Rules.

On the other hand, as at 31 December 2021, the Group had 75 customers spreading across five major industries (i.e. logistics, petroleum, healthcare, public infrastructure and aviation) and scattering across various regions of the PRC, with a presence in a total of 46 cities across 17 provinces, such as Heilongjiang up north, Guangdong down south and Yunnan in the west. The Directors consider the existing Group has healthy business relationship with Nanshan Group and they do not consider there to be undue reliance by the Group on Nanshan Group.

To the best knowledge of the Directors based on the information provided by the Nanshan Entities, both Mr. Song and the Nanshan Entities do not control any other business that directly or indirectly competes or is likely to compete with that of the existing Group.

EDUCATION BUSINESS

During the Track Record Period, the major source of revenue of the Target College were tuitions fees and boarding fees received from students, which collectively accounted for approximately 94.8%, 93.1%, 94.0% and 99.0% of the total revenue of the Target College, respectively, and the service fee income from the Nanshan Entities was comparatively insignificant. A breakdown of the income derived from "other education service fees", which constituted 5.2%, 6.9%, 6.0% and 1.0% of the revenue of the Target College for the Track Record Period respectively, is as follows:

	FY2019	**FY2020**	**FY2021**	**3M2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other education service fees	15,722	22,259	21,465	892
— Nanshan Group and its related companies*(Note 1)*	480	13,544	3,322	Nil
— Independent Third Parties	15,242	8,716	18,142	892

Note:

(1) The relatively higher amount of other education services fees provided by the Target College to Nanshan Group and its related parties for the year ended 31 December 2020 was primarily attributable to a relatively large scale staff training services provided to a subsidiary of Nanshan Group during the same period, and where such large scale staff training services are only occasionally required by the said customer.

Further, while the Target College collaborates with various enterprises including the Nanshan Entities to provide school-enterprise collaboration programmes to its students, the Nanshan Entities only constitute a slight portion of the enterprise partners which the Target College works with. As at the Latest Practicable Date, out of 190 enterprises which have entered into cooperation agreements with the Target College in relation to the provision of school-enterprise collaboration programmes, 179 of them are Independent Third Parties. Meanwhile, based on the internal records of the Target College, less than 3% of the Target College's graduates of each of the class of 2019, 2020 and 2021 joined the Nanshan Entities after they graduated from the Target College. Taking into account the aforesaid, the Directors do not consider there to be any undue reliance by the Target College on the Nanshan Entities.

To the best of knowledge of the Directors based on the information provided by Mr. Song and the Nanshan Group, both Mr. Song and the Nanshan Group do not control any other business that directly or indirectly competes or is likely to compete with that of the Target College.

VII. LISTING RULES IMPLICATIONS

THE ACQUISITION

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition exceeds 100%, the Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. In addition, the Listing Committee has resolved that the Acquisition is an extreme transaction under Rule 14.06C of the Listing Rules and the reverse takeover rules do not apply. The classification is subject to the completion of due diligence work on the Target College by Zhongtai International Capital Limited, the financial adviser to the Company in connection with the Acquisition, and its submission of a declaration to support that the Target College can meet Rules 8.04 and 8.05 of the Listing Rules. Further, Mr. Song is the father-in-law of Ms. Sui and is therefore a connected person of the Company. On the other hand, Nanshan Group, which was owned as to 51.0% by Nanshan Village Committee and 49.0% by Mr. Song Jianbo as at the Latest Practicable Date, is a connected person of the Company. As such, the Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14 and Chapter 14A of the Listing Rules. The Company is required to prepare a transaction circular under an enhanced disclosure comparable to prospectus standard. Zhongtai International Capital Limited has been appointed as the financial adviser to the Company in connection with the Acquisition and to perform due diligence on the Target College and the Financial Adviser has submitted the declaration as required under Rule 14.53A(2) of the Listing Rules.

THE CONTRACTUAL ARRANGEMENTS

Given that Mr. Song is a connected person of the Company, and that Nanshan Group is a connected person of the Company, the Contractual Arrangements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with (i) the requirement of fixing the term of the Contractual Arrangements and having a term not exceeding three years under Rule 14A.52 of the Listing Rules; and (ii) the requirement of setting an annual cap for the Contractual Arrangements under Rule 14A.53 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange. For details, please refer to the section headed "Waivers from Strict Compliance with Listing Rules" in this circular.

THE FRAMEWORK AGREEMENTS

Upon Completion, the Company will gain effective control over the Target College and enjoy 70.0% of the economic benefits generated by the Target College, and the financial results of the Target College will be consolidated to the consolidated financial statements of the Group.

Nanshan Group was owned as to 51.0% by Nanshan Village Committee and 49.0% by Mr. Song Jianbo, as at the Latest Practicable Date, and is therefore a connected person of the Company. Further, as at the Latest Practicable Date, (i) Longkou Nanshan was owned as to approximately 83.3% by Mr. Song, and 16.7% by Ms. Lv, the spouse of Mr. Song, (ii) Nanshan Development was owned as to approximately 63.7% by Mr. Song, and (iii) Longkou Management was owned as to 70.0% by Mr. Song and 30.0% by Ms. Lv. As such, Longkou Nanshan, Nanshan Development and Longkou Management are associates of Mr. Song pursuant to the Listing Rules and are therefore connected persons of the Company.

Accordingly, the transactions contemplated under the Framework Agreements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon Completion.

Given (i) the relationship between Mr. Song and Mr. Song Jianbo and their respective interests in the Connected Transaction Counterparties, (ii) the similar nature of the Framework Supply Agreements, and (iii) the Framework Supply Agreements were all entered into within a 12-month period, the transactions under the Framework Supply Agreements form a series of transactions which should be treated as if they were one transaction pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. On the same token, the transactions under the Framework Procurement Agreements also form a series of transactions and should be treated as if they were one transaction pursuant to Rules 14A.81 and 14A.82 of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profit ratio) in respect of the annual caps under the Framework Procurement Agreements is more than 5.0%, and the aggregate annual consideration payable under the Framework Procurement Agreements, on an annual basis, is more than HK$10,000,000, the entering into of the Framework Procurement Agreements is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

With respect to the Framework Supply Agreements, as one or more of the applicable percentage ratios (other than the profit ratio) in respect of the annual caps thereunder is more than 1.0% but all the applicable percentage ratios (other than the profit ratio) are less than 5.0%, and that the aggregate annual consideration payable under the Framework Supply Agreements, on an annual basis, exceeds HK$3,000,000, the entering into of the Framework Supply Agreements is subject to the reporting and announcement requirements but exempted from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

VIII. EGM AND CLOSURE OF REGISTER OF MEMBERS

The EGM will be convened and held at 13th Floor, T4, Qiaochengfang, No. 4080, Qiaoxiang Road, Nanshan District, Shenzhen, Guangdong, PRC on Thursday, 18 August 2022 at 10:30 a.m. for the purpose of considering, and if thought fit, approving the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements.

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements. Gram Capital, the Independent Financial Adviser, has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements.

The notice of EGM is set out on pages EGM-1 to EGM-2 of this circular. Whether or not you intend to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (if the documents will be lodged before 15 August 2022) or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (if the documents will be lodged on or after 15 August 2022) as soon as possible and in any event not later than 48 hours (i.e. Tuesday, 16 August 2022 at 10:30 a.m.) before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof (as the case may be), if you so wish.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 15 August 2022 to Thursday, 18 August 2022, both dates inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (if the documents will be lodged before 15 August 2022) or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (if the documents will be lodged on or after 15 August 2022) for registration not later than 4:30 p.m. on Friday, 12 August 2022.

Votes on the resolutions to be considered at the EGM shall be taken by poll. As at the Latest Practicable Date, Union Capital, which is wholly owned by Ms. Sui, held 768,475,221 Shares, representing approximately 51.23% of the entire issued share capital of the Company. Given that, among others, Mr. Song is the father-in-law of Ms. Sui, and that Ms. Sui is the wife of Mr. Song Jianbo, who is the legal representative, chairman and general manager of Nanshan Group and is interested in 49% of the equity interest in Nanshan Group, Union Capital will abstain from voting on the resolutions in relation to the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements at the EGM. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, save as Union Capital, no Shareholder has a material interest in the resolutions in respect of the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements who shall abstain from voting on the resolutions to be proposed at the EGM.

IX. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee on pages 60 to 61 of this circular, which sets out the recommendation from the Independent Board Committee to the Independent Shareholders on the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements; and (ii) the letter from Gram Capital, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders on pages 62 to 91 of this circular, which contains the advice of Gram Capital in respect of the Acquisition (including the Contractual Arrangements), the Framework Procurement Agreements and the transactions contemplated thereunder.

The Board (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee in this circular) is of the view that:

(i) the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Acquisition, if completed, could diversify the business and income stream of the Group, and will facilitate the sustainable growth of the Group in the long run;

(ii) taking into account the factors, among others, that (a) the Structured Contracts are narrowly tailored to achieve the business purpose of the Target Entities and to manage any potential conflict with and are enforceable under the relevant PRC laws and regulations, (b) the Structured Contracts enable the Company to gain effective control over the Target College and enjoy 70.0% of the economic benefits generated by the Target College, (c) the financial results, assets and liabilities of the Target College will be consolidated into the consolidated financial statements of the Group, and (d) the Structured Contracts contain clauses (such as power of attorney and dispute resolution) that shall properly safeguard the Company's interests in the Target College, the Contractual Arrangements and the terms of the Structured Contracts are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and

(iii) the Framework Procurement Agreements and the transactions contemplated thereunder have been negotiated on an arm's length basis, will be conducted on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements.

X. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in other sections including the section headed "Risk Factors Relating to the Target College" in this circular, and the appendices to this circular.

By order of the Board
International Alliance Financial Leasing Co., Ltd.
Jiao Jianbin
Non-Executive Director

The following is the full text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Acquisition (including the Contractual Arrangements), the Framework Procurement Agreements and the transactions contemplated thereunder.

INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD.

国际友联融资租赁有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1563)

3 August 2022

To the Independent Shareholders

Dear Sir or Madam,

(1) EXTREME TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 70% INTERESTS IN YANTAI NANSHAN UNIVERSITY;
(2) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE ENTERING INTO OF THE CONTRACTUAL ARRANGEMENTS;
(3) CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE FRAMEWORK AGREEMENTS; AND
(4) NOTICE OF EGM

We refer to the circular dated 3 August 2022 issued by the Company (the "**Circular**") of which this letter forms part. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements. Gram Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of the advice of Gram Capital, together with the principal factors and reasons considered by Gram Capital, are contained in the letter from Gram Capital set out on pages 62 to 91 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in other sections and the appendices to the Circular.

Having considered, among other matters, the factors and reasons considered by, and the opinion of Gram Capital as stated in its letter of advice, although the entering into of the Acquisition Agreement, the Structured Contracts and the Framework Procurement Agreements are not in the ordinary and usual course of business of the Company, we consider that the terms of the Acquisition Agreement, the Structured Contracts and the Framework Procurement Agreements are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition (including the Contractual Arrangements) and the Framework Procurement Agreements.

Yours faithfully,
For and on behalf of the
Independent Board Committee
International Alliance Financial Leasing Co., Ltd.

Liu Changxiang	**Liu Xuewei**	**Jiao Jian**	**Shek Lai Him Abraham**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the Transactions for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

3 August 2022

To: The Independent Board Committee and the Independent Shareholders of International Alliance Financial Leasing Co., Ltd.

Dear Sir/Madam,

(1) EXTREME TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 70% INTERESTS IN YANTAI NANSHAN UNIVERSITY;
(2) CONTINUING CONNECTED TRANSACTION IN RELATION TO THE ENTERING INTO OF THE CONTRACTUAL ARRANGEMENTS;
AND
(3) CONTINUING CONNECTED TRANSACTION IN RELATION TO THE FRAMEWORK PROCUREMENT AGREEMENTS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition (including the Contractual Arrangements), the entering into of the Framework Procurement Agreements and the transactions contemplated thereunder (the "**Transactions**"), details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 3 August 2022 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, on 6 July 2022 (after trading hours) (the "**Agreement Date**"), the Company and Longkou Zhimin, an indirect wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with Mr. Song, Nanshan Group and the Target College, pursuant to which Longkou Zhimin, as the purchaser, conditionally agreed to acquire, and Mr. Song and Nanshan Group as vendors, conditionally agreed to sell, the control of the Target College and 70.0% equity interest in the Designated School Sponsor at a total consideration of RMB566.0 million (equivalent to approximately HK$660.4 million). As stipulated in the Acquisition Agreement, the

Structured Contracts shall be entered into to allow the Group to gain effective control of the finance and operations of the Target College, and enjoy 70.0% of the economic benefits generated by the Target College (i.e. the Contractual Arrangements).

On even date, the Target College entered into (i) the Framework Supply Agreements with the Connected Transaction Counterparties for Target College's supply of the Group A Services; and (ii) the Framework Procurement Agreements with Nanshan Group, Longkou Nanshan and Nanshan Development respectively for the Target College's procurement of the Group B Goods and Services. Subject to the fulfilment of conditions precedents, the Framework Procurement Agreements will become effective upon Completion.

With reference to the Board Letter:

(i) The Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. In addition, the Listing Committee has resolved that the Acquisition is an extreme transaction under Rule 14.06C of the Listing Rules and the reverse takeover rules do not apply. The Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Accordingly, the Acquisition is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14 and Chapter 14A of the Listing Rules.

(ii) The Contractual Arrangements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules. The Company also applied and the Stock Exchange granted a waiver from strict compliance with certain requirements under Chapter 14A of the Listing Rules.

(iii) The transactions contemplated under the Framework Procurement Agreements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon Completion and the entering into of the Framework Procurement Agreements is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Liu Changxiang, Mr. Liu Xuewei, Mr. Jiao Jian and Mr. Shek Lai Him Abraham, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of the business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Management, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Target College, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report on the fair value of 70.0% of interest in the Target College (the "**Valuation Report**") prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the "**Valuer**") as set out in Appendix V to the Circular. Since we are not experts in the valuation of company and assets, we have relied upon the Valuation Report for the fair value of the 70% interest in the Target College (i.e. the Business Valuation) as at 31 March 2022 (the "**Valuation Date**").

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular 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 therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Group, the Vendor, Mr. Song, the Target College, the Connected Transaction Counterparties or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transactions, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Company is an investment holding company. The Group is principally engaged in finance leasing and the provision of finance leasing and advisory services to its customers. The Group targets customers in the healthcare, aviation and public infrastructure industries in the PRC.

Set out below are the audited consolidated financial information of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "**2021 Annual Report**"):

	For the year ended 31 December 2021	For the year ended 31 December 2020	Changes from FY2020 to FY2021
	RMB'000	*RMB'000*	*%*
Revenue	231,843	248,046	(6.53)
Profit for the year	78,899	16,610	375.01

As illustrated in the above table, the Group's revenue for FY2021 decreased by approximately 6.53% as compared to that for FY2020. With reference to the 2021 Annual Report, such decrease was mainly due to that the Group has been more cautious in selecting quality customers and approving new projects as a result of the change of finance lease business environment.

Despite the aforesaid decrease in the Group's revenue, the Group's profit for FY2021 increased by approximately 375.01% as compared to that for FY2020. With reference to the 2021 Annual Report, the aforesaid substantial increase in the Group's profit was primarily due to the impairment losses reversed on financial assets for FY2021 in contrast of the impairment losses recognised on financial assets for FY2020.

With reference to the 2021 Annual Report, in FY2021, the Group has been exploring to acquire businesses beyond the purview of finance leasing, especially those provide stable cash flows (in particular, the proposed acquisition of the Target College which is now being materialised by conducting the Acquisition), so as to supplement the Group's existing finance leasing business squarely in providing a natural hedge to the Group's financial liquidity. The Group will continue to pay close attention to the market changes in finance leasing industry, adjust its business strategies in a timely manner, expand and diversify its business scope, actively adjust the speed of business development, give priority to risk prevention and control at appropriate times, and strengthen the project approval committee's role in project selection. The Group is committed to improving and enhancing the level of asset management, diversifying customer and project categories, improving the quality of its cashflows and reducing overall asset risk.

Information on the Vendors and the Target College

The Vendors

With reference to the Board Letter, Nanshan Group is a company established in the PRC with limited liability. Nanshan Group, together with its subsidiaries, are a conglomerate with principal businesses encompassing aluminium, textile apparel, petrochemical, finance, aviation, real estate, healthcare, education and tourism. As at the Latest Practicable Date, Nanshan Group is owned as to 51% by the Nanshan Village Committee and 49% by Mr. Song Jianbo.

As at the Latest Practicable Date, Mr. Song is the registered school sponsor of the Target College as designated by Nanshan Group, while Nanshan Group maintains control over the Target College, and the financial results of the Target College are consolidated into the consolidated financial statements of Nanshan Group.

The Vendors are connected persons of the Company.

The Target College

With reference to the Board Letter, the Target College, approved to be upgraded to an undergraduate college from an associate college in 2005 on the basis of Shandong Nanshan Vocational and Technical College* (山東南山職業技術學院) and located in Longkou City, Shandong Province, the PRC (中國山東省龍口市), is a private institution of higher education that provides undergraduate and junior college diploma programmes approved by the Ministry of Education of the PRC. In 2018, the Target College was recognised as one of the Model Colleges of Experimental Innovation and Entrepreneurship in the Shandong Province, the PRC (山東省新創業典型經驗高校) by the Department of Human Resources and Social Security of the Shandong Province, the PRC (山東省人力資源和社會保障廳). The Target College offers 49 undergraduate programmes and 40 junior college diploma programmes with a total of 30 faculties. During the 2021/2022 school year (up to 31 May 2022), the total number of student enrolment was more than 29,000. The tuition fee charged by the Target College for the 2021/2022 school year ranged from approximately RMB8,200 to RMB20,800 (depending on majors).

With reference to the Circular, the number of student enrolments has increased from 20,845 students for the school year of 2017/2018, to 22,778 students for the school year of 2018/2019, to 25,379 students for the school year of 2019/2020, to 25,596 students for the school year of 2020/2021, and to 29,047 students for the school year of 2021/2022 (up to 31 May 2022).

Further details of the Target College are set out in the section headed "Business of the Target College" of the Circular.

Set out below is the financial information of the Target College for the three years ended 31 December 2021 and the 3M2022 (with the corresponding comparative figures for the 3M2021), as extracted from the accountants' report on the Target College as contained in Appendix I to the Circular:

	For the three months ended 31 March 2022	For the three months ended 31 March 2021	Changes from 3M2021 to 3M2022	For the year ended 31 December 2021	For the year ended 31 December 2020	For the year ended 31 December 2019	Changes from FY2020 to FY2021	Changes from FY2019 to FY2020
	RMB'000	*RMB'000*	*%*	*RMB'000*	*RMB'000*	*RMB'000*	*%*	*%*
	(audited)	*(unaudited)*		*(audited)*	*(audited)*	*(audited)*		
Revenue	90,654	79,839	13.55	356,497	324,535	301,120	9.85	7.78
— Tuition fees	*82,304*	*71,726*	*14.75*	*307,257*	*285,414*	*260,521*	*7.65*	*9.56*
— Boarding fees	*7,458*	*6,675*	*11.73*	*27,775*	*16,862*	*24,877*	*64.72*	*(32.22)*
— Other education service fees	*892*	*1,438*	*(37.97)*	*21,465*	*22,259*	*15,722*	*(3.57)*	*41.58*
Gross profit	33,030	30,161	9.51	129,983	142,777	130,182	(8.96)	9.67
Profit for the year/ period	31,480	25,917	21.46	102,029	107,877	107,208	(5.42)	0.62

As illustrated by the above table,

(i) the Target College's revenue increased by approximately 7.78% from approximately RMB301.1 million for FY2019 to approximately RMB324.5 million for FY2020 and further increased by approximately 9.85% to approximately RMB356.5 million for FY2021;

(ii) the Target College's revenue increased by approximately 13.55% from approximately RMB79.8 million for 3M2021 to approximately RMB90.7 million for 3M2022;

(iii) the Target College's gross profit increased by approximately 9.67% from approximately RMB130.2 million for FY2019 to approximately RMB142.8 million for FY2020, and decreased by approximately 8.96% to approximately RMB130.0 million for FY2021; and

(iv) the Target College's gross profit increased by approximately 9.51% from approximately RMB30.2 million for 3M2021 to approximately RMB33.0 million for 3M2022.

Increase in the Target College's revenue from FY2019 to FY2021 and from 3M2021 to 3M2022 was mainly driven by increase in revenue from tuition fees, which represented over 85% of the Target College's revenue during the Track Record Period. With reference to the Circular, increase in the Target College's revenue from tuition fees (i) from FY2019 to FY2021 was mainly due to (a) increase in the total number of student enrolments; and (b) increase in tuition fee rates; and (ii) from 3M2021 to 3M2022 was mainly due to increase in the total number of student enrolments.

As the Target College's revenue increased from FY2019 to FY2020 and its gross profit margin for FY2020 remained similar to that for FY2019, the Target College's gross profit increased from FY2019 to FY2020. From FY2020 to FY2021, the Target College's gross profit decreased by approximately 8.96% and gross profit margin decreased by approximately 7.53 percentage points. With reference to the Circular, the aforesaid decreases in gross profit and gross profit margin were mainly due to increase in costs of services which was mainly caused by (i) increase in salary and benefits as a result of increase in the number of teaching staff; (ii) increase in training costs mainly related to the provision of aviation related training courses; (iii) increase in depreciation; and (iv) increase in utility expense.

Notwithstanding the increase in the Target College's gross profit for 3M2022 as compared to that for 3M2021, the Target College's gross profit margin slightly decreased by approximately 1.34 percentage points from approximately 37.78% for 3M2021 to approximately 36.44% for 3M2022. With reference to the Circular, such decrease in the Target College's gross profit margin was mainly due to increase in costs of services which was mainly caused by (i) increase in salary and benefits as a result of increase in the number of teaching staff; and (ii) increase in utility expense as a result of increase in utilities prices, partially offset by decrease in maintenance and repair expenses.

As illustrated by the above table, (i) the Target College's profit for FY2019 and FY2020 remained at similar level of approximately RMB107.2 million and approximately RMB107.9 million respectively; (ii) the Target College's profit of approximately RMB102.0 million for FY2021 represented a decrease of approximately 5.42% as compared to that for FY2020; and (iii) the Target College's profit of approximately RMB31.5 million for 3M2022 represented an increase of approximately 21.46% as compared to that for 3M2021. With reference to the Circular: (i) decrease in the Target College's profit for FY2021 was mainly due to (a) decrease in gross profit and gross profit margin as aforementioned; and (b) decrease in other net gain, as partially offset by increase in other income and decrease in finance costs; and (ii) increase in the Target College's profit for 3M2022 was mainly due to (a) increase in gross profit as aforementioned; (b) increase in other income; and (c) decrease in finance costs, as partially offset by increase in administrative expenses.

As at 31 March 2022, the Target College's total assets, net assets and bank balances and cash were approximately RMB970.0 million, RMB662.0 million and RMB5.4 million, respectively.

Information on Longkou Nanshan and Nanshan Development

Longkou Nanshan

With reference to the Board Letter, Longkou Nanshan is a company established in the PRC with limited liability. Longkou Nanshan, together with its subsidiaries, are principally engaged in a range of businesses from catering, exhibition, hospitality to production and sales of construction materials. As at the Latest Practicable Date, Longkou Nanshan is owned as to approximately 83.3% by Mr. Song, and 16.7% by Ms. Lv, the spouse of Mr. Song. Longkou Nanshan is a connected person of the Company.

Nanshan Development

With reference to the Board Letter, Nanshan Development is a company established in the PRC with limited liability, and is principally engaged in property management and property development and sales. As at the Latest Practicable Date, Nanshan Development is owned as to approximately 63.7% by Mr. Song, 22.7% by Nanshan Group and 13.7% by Ms. Sui. Nanshan Development is a connected person of the Company.

Reasons for and benefits of the Transactions

With reference to the Board Letter, since the emergence of the COVID-19 pandemic and the tightened requirements on the customers of finance leasing companies as a result of the Interim Measures for the Supervision and Administration of Financial Leasing Companies* (融資租賃公司監督管理暫行辦法) (the "**Interim Measures**"), which was promulgated in 2020, the Group's management has been exploring the opportunity to diversify and expand the Group's business in addition to the existing principal business of finance leasing, so as to mitigate and disperse the potential risks of solely carrying on and concentrating on the finance leasing business considering its nature which has been more prone to the business cycle and external macroeconomic environments, and broadening the Group's sources of income to enhance its shareholders' value and ensure sustainable growth.

We noted that the Interim Measures introduced, among other things, certain guideline on the business scope, scope of lease property and scope of prohibited business or activity, and certain financial ratios in respect of concentration and relatedness of finance lease balance from finance lease customers/related parties/shareholders. As confirmed by the Directors, the operating entities of the Group's finance lease business are required to operate in compliance with the Interim Measures and promulgation of the Interim Measures introduced tighten requirements to the operating condition of the Group's finance lease business.

Furthermore, as noted from the Board Letter, the higher education business tends to be less cyclical to business cycle and can generate stable operating cash flow, and the entry barriers to the PRC private higher education industry are generally high (including a number of lengthy and complex application and approval processes, requirements of having sufficient initial capital, on-going investments and land resources for school facilities, time and experience required for establishing brand awareness and reputations due to students' and parents' inclination to choose schools with a long history and well-established reputation).

Industry overview

Total revenue of private higher education industry in the PRC (including Shandong Province)

Set out below are the total revenue of private higher education industry in the PRC for years 2016 to 2020, as extracted from the section headed "Industry Overview relating to the Target College" of the Circular:

	2020	**2019**	**2018**	**2017**	**2016**
Total revenue of private higher education industry in the PRC *(RMB'billion)*	141.5 *(Note)*	136.6	120.6	109.5	102.4
Total revenue of private higher education industry in Shandong Province *(RMB'billion)*	9.1	8.7	7.1	6.1	5.9

Note: This is an estimated figure.

As shown in the table above, there was year-on-year increase in total revenue of private higher education industry in the PRC for each of years 2017, 2018 and 2019. The total revenue of private higher education industry in the PRC increased from approximately RMB102.4 billion for year 2016 to approximately RMB136.6 billion for year 2019, representing a CAGR of approximately 10.08%.

As shown in the table above, there was year-on-year increase in total revenue of private higher education industry in Shandong Province for each of years 2017, 2018, 2019 and 2020. The total revenue of private higher education industry in Shandong Province increased from approximately RMB5.9 billion for year 2016 to approximately RMB9.1 billion for year 2020, representing a CAGR or approximately 11.44%.

Furthermore, as noted from the section headed "Industry Overview relating to the Target College" of the Circular, total revenue of private higher education industry in the PRC is expected to reach approximately RMB217.4 billion for year 2025, representing a CAGR of approximately 8.05% from year 2019, and total revenue of private higher education industry in Shandong Province is expected to reach approximately RMB14.7 billion for year 2025, representing a CAGR of approximately 10.07% from year 2020.

Total number of student enrolments in private higher education in the PRC (including Shandong Province)

Set out below are the total number of student enrolments in private higher education in the PRC for years 2016 to 2020, as extracted from the section headed "Industry Overview relating to the Target College" of the Circular:

	2020	**2019**	**2018**	**2017**	**2016**
Total number of student enrolments in private higher education in the PRC *('000)*	7,915.9	7,090.1	6,497.5	6,285.8	6,162.8
Total number of student enrolments in private higher education in Shandong Province *('000)*	505.2	452.7	387.1	364.4	368.4

As shown in the table above, there was year-on-year increase in total number of student enrolments in private higher education in the PRC for each of years 2017, 2018, 2019 and 2020. The total number of student enrolments in private higher education in the PRC increased from approximately 6.2 million enrolments for year 2016 to approximately 7.9 million enrolments for year 2020, representing a CAGR of approximately 6.46%.

As shown in the table above, the total number of student enrolments in private higher education in Shandong Province for year 2017 slightly decreased as compared to that for year 2016 and there was year-on-year increase in total number of student enrolments in private higher education in Shandong Province for each of years 2018, 2019 and 2020. The total number of student enrolments in private higher education in Shandong Province increased from approximately 368,400 enrolments for year 2016 to approximately 505,200 enrolments for year 2020, representing a CAGR of approximately 8.21%.

Furthermore, as noted from the section headed "Industry Overview relating to the Target College" of the Circular, (a) the total number of student enrolments in private higher education in the PRC is expected to reach approximately 10.2 million enrolments for year 2025, representing a CAGR of approximately 5.11% from year 2020; and (b) total number of student enrolments in private higher education in Shandong Province is expected to reach approximately 669,400 enrolments for year 2025, representing a CAGR of approximately 5.79% from year 2020.

The above industrial information indicated the prospects of the industry relating to the Target College.

In respect of the transactions contemplated under the Framework Agreements (including the Framework Procurement Agreements), we noted from the Board Letter that, in view of the long-standing and amicable business relationship between the Target College and the Connected Transaction Counterparties, the Connected Transaction Counterparties are reliable business partners and future business cooperation between the Target College and the Connected Transaction Counterparties will be beneficial to the operation of the Target College. With reference to the Board Letter, the goods and services to be procured pursuant to the Framework Procurement Agreements consist of goods and services essential for the daily operation of the Target College (such as staff uniforms, repair and maintenance services and campus sanitary and cleaning services).

Having considered (i) the aforesaid reasons and benefits of the Transactions; (ii) the prospects of the industry relating to the Target College as indicated above; and (iii) the Target College's profitability during the Track Record Period, we are of the view that although the Transactions are not conducted in the ordinary and usual course of business of the Company, they are in the interests of the Company and its Shareholders as a whole.

Principal terms of the Acquisition

Summarised below are the principal terms for the Acquisition Agreement, details of which are set out under the section headed "II. THE ACQUISITION" of the Board Letter.

Date

6 July 2022 (after trading hours)

Parties

(a) the Company;

(b) Longkou Zhimin;

(c) Mr. Song;

(d) Nanshan Group; and

(e) the Target College.

Subject matter of the Acquisition

Subject to and upon fulfilment of the terms and conditions of the Acquisition Agreement, Longkou Zhimin shall acquire the control of the Target College and 70.0% equity interest in the Designated School Sponsor from the Vendors.

Due to the restriction of foreign ownership under the PRC laws (details of which are set out in section headed "III. CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE CONTRACTUAL ARRANGEMENTS" of the Board Letter) and as one of the Completion Conditions, Longkou Zhimin will enter into the 1^{st} set of Structured Contracts with, among others, Mr. Song and Nanshan Group, pursuant to which the Company shall gain effective control over the Target College through the Contractual Arrangements, and shall enjoy 70.0% of the economic benefits generated by the Target College.

Completion shall take place on the date on which the last of the Completion Conditions is satisfied. Upon Completion, the financial results of the Target College will be consolidated to those of the Company pursuant to the 1^{st} set of Structured Contracts.

Pursuant to the Acquisition Agreement, the Vendors have undertaken to take all necessary measures to cooperate with the Target College to change the school sponsor of the Target College to the Designated School Sponsor after Completion, including but not limited to establishing the Designated School Sponsor in accordance with the instructions of the Group, and to apply for change of the school sponsor of the Target College in the name of the Designated School Sponsor.

Upon the Ministry of Education of the PRC (i) approving the Designated School Sponsor to become the sole school sponsor of the Target College and (ii) notifying the Education Department of the Shandong Province of such approval, the Vendors shall, in accordance with the instructions of Longkou Zhimin:

(a) cooperate with Longkou Zhimin and the Target College to terminate the 1^{st} set of Structured Contracts; and

(b) procure the Designated School Sponsor and all its shareholders, as well as their related parties (where applicable) to enter into the 2^{nd} set of Structured Contracts with Longkou Zhimin and the Target College.

Consideration

The total consideration for the Acquisition is RMB566.0 million (equivalent to approximately HK$660.4 million) (the "**Consideration**"), which shall be payable to Nanshan Group and shall be satisfied by cash in the following manner:

I. The First Payment of RMB35.0 million (equivalent to approximately HK$40.8 million) shall be made within ten Business Days upon the entering into of the Acquisition Agreement.

II. The Second Payment of RMB70.0 million (equivalent to approximately HK$81.7 million) shall be made within ten Business Days upon fulfilment of the Completion Conditions.

III. The Third Payment of RMB295.0 million (equivalent to approximately HK$344.2 million) shall be made within ten Business Days upon the expiry of 90 days after Completion. The due date for the Third Payment is extendible for a period of 180 days at the option of the Group, provided that the Group shall pay to Nanshan Group an additional interest calculated at 4.0% per annum of the unsettled portion of the Third Payment over the extended payment period until its settlement.

IV. The Fourth Payment of RMB109.4 million (equivalent to approximately HK$127.7 million) shall be made within ten Business Days upon the earlier of (i) fulfilment of the Fourth Payment Conditions; or (ii) the expiry of two years after Completion. Further, the due date for the Fourth Payment (determined based on the aforesaid mechanism) is extendible for a period of 360 days at the option of the Group, provided that the Group shall pay to Nanshan Group an additional interest calculated at 4.0% per annum of the unsettled portion of the Fourth Payment over the extended payment period until its settlement.

V. The Fifth Payment of RMB56.6 million (equivalent to approximately HK$66.0 million) shall be made in accordance with the following manner:

(a) if the Fourth Payment is made based on the expiry of the two year-period after Completion, rather than the fulfilment of the Fourth Payment Conditions, then the Fifth Payment shall be made within ten Business Days upon (i) the fulfilment of the Fourth Payment Conditions, or (ii) the expiry of four years after Completion, whichever is later; or

(b) if the Fourth Payment is made based on the fulfilment of the Fourth Payment Conditions, then the Fifth Payment shall be made within the ten Business Days upon the expiry of four years after Completion.

Further, the due date for the Fifth Payment (determined based on the above mechanism) is extendible for a period of 720 days at the option of the Group, provided that the Group shall pay to Nanshan Group an additional interest calculated at 4.0% per annum of the unsettled portion of the Fifth Payment over the extended payment period until its settlement.

As stated above, the Third Payment shall be made within ten Business Days upon the expiry of 90 days after Completion. Out of the five instalments, the Fourth Payment and the Fifth Payment shall be paid after the fulfilment of the Fourth Payment Conditions or within the specified timeframe even if the same have not been fulfilled.

With reference to the Board Letter, the Fourth Payment Conditions mainly involve the regulatory approval, registration and corresponding procedures (such as the execution of the 2nd set of Structured Contracts) regarding the change of the existing school sponsor of the Target College to the Designated School Sponsor. Such change (including the execution of the 2nd set of Structured Contracts) is to confer administrative convenience to the Group in the future. In fact, even without the fulfilment of the Fourth Payment Conditions (in particular those related to the change of school sponsor), the Company will gain effective control over the Target College and enjoy 70.0% of the economic benefits generated by the Target College upon execution of the 1st set of the Structured Contracts and the financial results of the Target College will be consolidated to the consolidated financial statements of the Company upon Completion.

In the circumstance that the Fourth Payment Conditions have not been fulfilled, the earliest time for the Fourth Payment and the Fifth Payment will be approximately two years after the Completion and approximately four years after the Completion, respectively. By the time of such payments, the Company will have taken control of the Target College and the financial results of the Target College will have been consolidated into the Group for at least two years (with reference to the accountants' report on the Target College as contained in Appendix I to the Circular, the Target College's profit for each of the three years ending 31 December 2021 was over RMB100 million).

Based on our independent research, we identified 22 notifiable and/or connected transactions in relation to acquisition of unlisted equity interest with cash consideration only (which are exhaustive as far as we are aware of), as announced by listed companies on the Stock Exchange from 1 June 2022 to 6 July 2022, being a period of approximately one month prior to and including the Agreement Date for demonstrating recent market practices. As the aforesaid transactions are exhaustive as far as we are aware of and they demonstrated recent market practices, we consider them to be fair and representative. Under 14 out of 22 notifiable and/or connected transactions as aforementioned, 100% of the consideration would have been paid before, at, or shortly after completion of the acquisition. As aforementioned, the Third Payment shall be made within ten Business Days upon the expiry of 90 days after Completion.

Having considered the above, we consider the above payment terms to be justifiable.

With reference to the Board Letter, the Consideration was arrived at after arm's length negotiations with reference to and taking into account, among other matters, the business valuation of the Target College prepared by the Valuer, as well as the track record, geographical location, ranking, number of students, course offerings and tuition fee levels of the Target College.

The Valuation Report

To assess the fairness and reasonableness of the Consideration, we obtained the Valuation Report prepared by the Valuer and noted that the Business Valuation as at 31 March 2022 (i.e. the Valuation Date) was approximately RMB615.2 million.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation. From the mandate letter and other relevant information provided by the Valuer and based on our interview with them, we were satisfied with the terms of engagement and scope of work of the Valuer as well as their qualification and competence for preparation of the Valuation Report. The Valuer also confirmed that they are independent to the Group and the parties to the Acquisition.

The Valuer derived the Valuation utilising the guideline public companies method under market approach as valuation methodology. With reference to the Valuation Report, the Valuer considered three generally accepted approaches, namely market approach, costs approach and income approach:

(i) Cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets and it generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of cost approach, it does not directly incorporate information about the economic benefits contributed by the Target College and thus was rejected by the Valuer;

(ii) Income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. As income approach involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained, thus was rejected by the Valuer; and

(iii) Market approach considers the prices recently paid for similar assets, with adjustments made to market prices to reflect the condition and utility of the appraised assets relative to the market comparative. Benefits of using market approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. Accordingly, the Valuer is of the view that it is appropriate to conduct the Valuation using market approach.

In light of the above, we consider the adoption of market approach for the Valuation is justifiable.

Under market approach, the Valuer adopted the guideline public companies method in conducting the Valuation. We noted that the Valuer selected the comparable listed companies with selection criteria including:

(i) the companies are listed on the Stock Exchange and the shares of which were actively traded on the Stock Exchange for no less than six months;

(ii) the companies mainly engage in educational services that provide undergraduate and junior college programmes (same as that provided by the Target College) with over 50% of their respective total revenue generated from higher education service in their respective latest financial year;

(iii) the companies mainly operate in the PRC; and

(iv) sufficient data on the companies are available as at the Valuation Date.

Based on the aforesaid criteria, the Valuer selected 15 comparable companies (and removed one comparable company from the list of comparable companies after considering the circumstances as stated in the Valuation Report). As the selection criteria enable the Valuer to identify companies that mainly operates similar activity (the provision of undergraduate and junior college programmes) in the same geographical region (i.e. the PRC) of the Target College, with sufficient data publicly available for the Valuer to conduct the Valuation, we do not doubt the selection criteria adopted by the Valuer in identifying the comparable companies and we are of the view that the comparable companies are fair and representative.

The Valuer applied the enterprise value ("**EV**") over earnings before interest, tax, depreciation and amortisation ("**EBITDA**") multiple ("**EV/EBITDA**") for the purpose of arriving at the Valuation. We understood from the Valuer that (a) the Valuer considered and rejected price to earnings ratio ("**P/E Ratio**") as it does not capture the financial leverage and other related risk features across the comparable companies; (b) the Valuer considered and rejected price to book ratio as price to book ratio is common for asset intensive industries; (c) the Valuer considered and rejected both the price to sales ratio and enterprise value to sales ratio as they do not take into account subject company's profitability; and (d) the Valuer considered and adopted EV/EBITDA as it is suitable for profitable companies and it caters for differences in balance sheet positions among the Target College and the comparable companies. We also understood from the Valuer that EV/EBITDA is a capital structure neutral ratio since it takes into account debt (under EV) and earnings before interest expenses, and allows the Valuer to compare the Target College against the comparable companies without considering how each comparable company finances its operations.

After the Valuer computed the base EV/EBITDA of the comparable companies, the Valuer adjusted such ratio by certain factors such as country and size premium and market capitalisation to enterprise value ratio, to arrive at the adjusted EV/EBITDA of the comparable companies. We understood from the Valuer that the adjustments were made principally to reflect the difference in sizes among the Target College and the comparable companies, and such adjustments were referred to a formula in a textbook titled "Financial Valuation — Applications and Model (4th Edition)" by James R. Hitchner (James R. Hitchner is the managing director of a firm specializing in the valuation of businesses/intangible assets, litigation or forensic services. He has over 30 years of valuation experience is the editor in chief of the journal "Financial Valuation and Litigation Expert" and is editor or co-author of several valuation-related publications such as "Financial Valuation Workbook, Fourth Edition", "A Consensus View Q&A Guide to

Financial Valuation" and "Valuation for Financial Reporting: Fair Value, Business Combination, Intangible Assets, Goodwill and Impairment Analysis, Third Edition".). The Valuer advised us that the aforesaid adjustments are widely accepted and applied.

In respect of country premium, we noted that the country premium was determined by the Valuer with reference to the country risk premium as published and regularly updated by Professor. Aswath Damodaran (Professor. Aswath Damodaran is a professor of finance at the Stern School of Business at New York University specialised in corporate finance and valuation. His papers have been published in the "Journal of Financial and Quantitative Analysis", the "Journal of Finance", the "Journal of Financial Economics" and the "Review of Financial Studies"). We also cross-checked with the data published by Professor. Aswath Damodaran (https://pages.stern.nyu.edu/˜adamodar/) and noted that the country risk premium adopted by the Valuer is consistent with our findings.

In respect of size premium, we noted the Valuer made reference to the 2022 SBBI Yearbook published by Kroll Inc. (Kroll Inc., formerly Duff & Phelps which was founded in 1932, provides valuation, compliance and regulation, corporate finance and restructuring, cyber risk, environmental, social and governance, investigations and disputes, and business services. Kroll Inc. serves clients in 140 countries across six continents and spanning nearly every industry and sector). We also searched for acquisition or disposal of unlisted equity interest conducted by listed companies on the Stock Exchange and, based on available information disclosed in announcement or circular regarding such transactions (on a non-exhaustive basis), we identified 12 valuation of subject companies during the period from 1 July 2021 to 6 July 2022, being a period of approximately one year prior to and including the Agreement Date, which indicated the use of size premium published by Kroll Inc. or Duff & Phelps.

Having arrived at the adjusted EV/EBITDA of the comparable companies, the Valuer adopted the median of which to the trailing 12 months EBITDA of the Target College as at 31 December 2021 to arrive at the market value of 100% interest of the Target College (before adjustment for control premium and discount on lack of marketability).

In respect of the control premium, we noted that the Valuer applied a premium of 33.90% to reflect the price premium for controlling interest of a company. Since the Acquisition represents 70% of the interest of the Target College, we are of the view that the use of control premium is reasonable. We noted that the Valuer sampled all of the completed merger and acquisition transactions which involved acquisition of controlling stake (over 50%) in the target announced by Hong Kong listed companies during the three years preceding the Valuation Date and applied the median of the control premium of these transactions, for the purpose of determining the control premium, transactions with negative premium were excluded. We also searched for acquisition or disposal of unlisted equity interest conducted by listed companies on the Stock Exchange and, based on available information disclosed in announcement or circular regarding such transactions (on a non-exhaustive basis), we identified 30 valuation of subject companies during the period from 1 July 2021 to 6 July 2022, being a period of approximately one year prior to and including the Agreement Date, which indicated the use of control premium in conducting such valuation.

In respect of the discount on lack of marketability, we noted that the Valuer applied a discount of 15.80% ("**DLOM**") to reflect the cost associated with locating interested and capable buyers of interest in privately held companies, as there is no established market of readily available buyers and sellers. We noted that the Valuer determined the DLOM with reference to the 2021 edition of the Stout Restricted Stock Study Companion Guide (the "**Stout Study**") published by Stout Risius Ross, LLC, ("**Stout**") (Stout is a global investment bank and advisory firm specializing in corporate finance, valuation, financial disputes, and investigations, serving a range of clients from public corporations to privately held companies in numerous industries). The DLOM applied in the Valuation was referenced to the median of the discounts for all 763 transactions in the Stout Study (as of October 2021). We also noticed the adoption of DLOM with reference to Stout Study in certain valuation reports contained in Hong Kong listed companies' circulars.

For our due diligence purpose, we also obtained a sensitivity analysis on the Valuation conducted by the Valuer. Based on the sensitivity analysis, should (i) the control premium increase/decrease by 10% with other factors remain unchanged, the Valuation would increase/decrease by approximately 2.53%; and (ii) DLOM increase/decrease by 10% with other factors remain unchanged, the Valuation would decrease/increase by approximately 1.88%.

During our discussion with the Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

Despite the weaknesses of P/E Ratio, we cross-checked the Valuation with P/E Ratio analysis as it is one of the most commonly adopted trading multiples and it may reflect subject company's value based on profitability. We derived the P/E Ratio of the comparable companies adopted by the Valuer (which we consider to be fair and representative as aforementioned) based on their share closing prices on 31 March 2022 (i.e. the Valuation Date) and their then latest publicly available financial information (full year profit attributable to shareholders). The P/E Ratios of the comparable companies are set out below:

Company name (Stock code)	**Principal business**	**P/E Ratio** *(Note 1)*
Hope Education Group Co., Ltd. (1765)	Provision of higher education and secondary vocational education services in the PRC	8.31
China Kepei Education Group Limited (1890)	Providing private higher education services in the PRC	13.87
Edvantage Group Holdings Limited (382)	Operation of private higher education and vocational education institutions in the PRC and overseas	6.24

Company name (Stock code)	Principal business	P/E Ratio *(Note 1)*
Minsheng Education Group Company Limited (1569)	Providing on-campus and online educational services in the PRC	5.08
Neusoft Education Technology Co. Limited (9616)	Providing full-time formal higher education services, continuing education services, and education resources and apprenticeship programme in the PRC	7.41
JH Education Technology INC. (1935)	Provision of higher and secondary education services and the related management services in the PRC	13.81
Chen Lin Education Group Holdings Limited (1593)	Providing comprehensive educational services in the PRC	N/A *(Note 2)*
Shanghai Gench Education Group Limited (1525)	Providing undergraduate education and junior college education services in the PRC	7.45
Huali University Group Limited (1756)	Providing private tertiary education services, including tuition services and student accommodation services in the PRC	7.16
China Chunlai Education Group Co., Ltd. (1969)	Operation of private higher education institutions in the PRC	3.87
China Gingko Education Group Company Limited (1851)	Providing private higher education services in the PRC	9.97
Leader Education Limited (1449)	Providing private higher education services in the PRC	4.07
China Xinhua Education Group Limited (2779)	Engaged in the formal higher and secondary vocational education business in the PRC	5.35

Company name (Stock code)	Principal business	P/E Ratio *(Note 1)*
China Education Group Holdings Limited (839)	Operation of private higher vocational and secondary vocational education institutions in the PRC	9.59
Maximum		13.87
Minimum		3.87
Average		7.86
The Acquisition		7.92 *(Note 3)*

Source: the Stock Exchange's website

Notes:

1. The P/E Ratios of the comparable companies were calculated based on their respective then latest published audited profit attributable to the shareholders for the year, their respective closing prices as quoted on the Stock Exchange and the total issued shares as at the Valuation Date.

2. Such comparable company recorded loss for its latest financial period ended on its year-end date.

3. The implied P/E Ratio of the Acquisition is based on the Consideration and the Target College's profit for FY2021.

Based on our analysis, the P/E Ratio of the comparable companies ranged from approximately 3.87 times to 13.87 times, with average of approximately 7.86 times. The implied P/E Ratio of the Acquisition is within the P/E Ratio range of the comparable companies and is slightly higher than the average P/E Ratio of the comparable companies. In addition, based on (i) the average P/E Ratio of the comparable companies of approximately 7.86 times; (ii) the control premium of approximately 33.90%; (iii) DLOM of approximately 15.80%; and (iv) the Target College's profit for FY2021, the P/E Ratio analysis indicated that the market value of 70.0% interest in the Target College would be approximately RMB632.9 million as at 31 March 2022 (i.e. the Valuation Date).

Having considered our independent work performed on the Valuation Report as set out above and that the Consideration of RMB566.0 million is lower than the Valuation of approximately RMB615.2 million, we are of the view that the Consideration is fair and reasonable.

The Structured Contracts

With reference to the Board Letter, the Target College is a private higher education provider in the PRC, pursuant to the Negative List promulgated by the National Development and Reform Commission and the Ministry of Commerce of the PRC on 23 June 2020, the provision of higher education in the PRC falls within the "restricted" industry for foreign investors, and foreign investors are only allowed to invest in higher education through cooperation with a PRC education institution in compliance with the Regulation on Sino-Foreign Cooperation in Operating Schools (中外合作辦學條例) as promulgated by the State Council. The Company's PRC legal advisers advised the Company that there are no implementation measures or specific guidance promulgated on the Private School Qualification Requirements in accordance with the existing PRC laws. Therefore, it is currently uncertain as to what specific criteria must be met by a foreign investor in order to demonstrate to the relevant educational authority that it meets the Private School Qualification Requirements.

In order to maintain the Target College's business operations while complying with the PRC laws and regulations, pursuant to the Acquisition Agreement, (i) prior to Completion, Longkou Zhimin shall enter into the 1^{st} set of Structured Contracts with, among others, Mr. Song, Nanshan Group, and the Target College; and (ii) Longkou Zhimin shall enter into the 2^{nd} set of Structured Contracts with, among others, the Registered shareholder(s), the Designated School Sponsor and the Target College after (a) the establishment of the Designated School Sponsor; and (b) approval having been obtained for the Designated School Sponsor to become the sole school sponsor of the Target College after Completion, to enable 70.0% of the economic benefits of the business of the Target College to flow into Longkou Zhimin, to allow the Group to gain effective control of the finance and operations of the Target College, and enjoy 70.0% of the economic benefits generated by the Target College, such that the financial results of the Target College could be consolidated to those of the Company.

For our due diligence purpose, we obtained and reviewed the 1^{st} set of Structured Contracts and the PRC legal opinion issued by the Company's PRC legal advisers. As advised by the Directors:

(i) the Structured Contracts are narrowly tailored to achieve the business purposes and minimise the potential conflict with relevant PRC laws and regulations;

(ii) the 1^{st} set of Structured Contracts and the 2^{nd} set of Structured Contracts are effectively the same with the exception that the 2^{nd} set of Structured Contracts shall be entered into among the Registered Shareholder(s) and their spouse, the Designated School Sponsor, the Appointee(s) and the Target Entities (including the Target College) when the Designated School Sponsor is established;

(iii) the Target College is duly established and validly existing under the PRC laws, and has obtained or completed all requisite approvals, permits, registrations or filings that are material for carrying out its business operations as required by the applicable PRC laws;

(iv) upon the execution of the Structured Contracts, each of the agreements comprising the Contractual Arrangements shall be legal, valid and binding on the parties thereto, the contents of each agreement shall not violate the mandatory provision of current PRC laws, except in the following cases: under the current PRC laws, the arbitral body does not have the power to grant any injunctive relief, requiring civil entities to act or not to act, therefore the injunctive relief and other temporary relief measures under the Contractual Arrangements may not be legally and effectively enforced under current PRC laws;

(v) the execution and performance of the Contractual Arrangements shall not contravene the provisions that "malicious collusion is conducted to damage others' legitimate rights and interests (惡意串通，損害他人合法權益)" as stipulated in Civil Code of the PRC (《中華人民共和國民法典》);

(vi) none of the 1st set Structured Contracts violates any provisions of the existing articles of association of the Target College; and

(vii) the execution, effectiveness and enforceability of the Structured Contracts do not require any approvals from any PRC governmental authority, except that (1) the Receivable Pledge Agreement or the Equity Pledge Agreement are subject to registration requirements with the relevant administration for industry and commerce; (2) the exercising of the School Sponsor's Interests Call Option by Longkou Zhimin according to the Exclusive Call Option Agreement shall be subject to the then effective PRC laws.

We also understood from the Structured Contracts and the discussion with the Company that:

(i) the Exclusive Call Option Agreement under the Structured Contracts enables the Group to terminate the Structured Contracts in the event that the PRC laws and regulations allow the Group and/or other foreign entities designated by the Company to directly hold all or part of the school sponsor's interest in the Target College and operate private education business in the PRC;

(ii) according to the School Sponsors' and Directors' Entrustment Agreement under the Structured Contracts, Mr. Song and Nanshan Group (or the Registered Shareholder(s) and the Designated School Sponsor) irrevocably authorise and entrust Longkou Zhimin or any persons as successor of civil rights of Longkou Zhimin or liquidator appointed by reason of subdivision, merger or liquidation of Longkou Zhimin to exercise all their rights as school sponsors of the Target College to the extent permitted by the PRC laws;

(iii) if the parties to the Structured Contracts 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, the PRC under the prevailing effective arbitration rules thereof;

(iv) Longkou Zhimin will irrevocably agree that the authorisation appointment in the Mr. Song's Powers of Attorney or the Registered Shareholder(s)' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Mr. Song's or any of the Registered Shareholder(s)' loss of or restriction on capacity, death or other similar events;

(v) in the event of dissolution or liquidation of the Target College or pursuant to the applicable PRC laws, Longkou Zhimin and/or its designee(s) shall have rights to exercise all school sponsor's rights on behalf of Mr. Song and Nanshan Group, and shall instruct the Target College to transfer assets received under PRC laws directly to Longkou Zhimin and/or its designee(s);

(vi) the Directors have discussed with the auditors of the Company and it has confirmed that the financial results of the Target College will be consolidated into the accounts of the Group as long as either the 1st set of Structured Contracts or the 2nd set of Structured Contracts remain effective; and

(vii) the Group will adopt the internal control measures as set out under the sub-section headed "INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP" of the section headed "CONTRACTUAL ARRANGEMENTS" of the Circular to monitor the operation of the Target College and the Structured Contracts.

Having considered the above, we are of the view that the Structured Contracts take into account of the principals set out in the Stock Exchange's guidance letter HKEx-GL-77-14.

Furthermore, in assessing the reasons for the duration of the Structured Contracts to be longer than three years, we enquired into the Directors and the Directors advised us that the Structured Contracts enable Longkou Zhimin to be entitled to the 70.0% of the economic benefits of the business of the Target College and gain effective control of the finance and operations of the Target College. It would be unduly burdensome and impracticable, and would add unnecessary administration costs for a renewal of the Structured Contracts every three years or less as the contractual arrangements thereunder is a long-term arrangement.

In considering whether it is normal business practice for agreements of similar nature with the Structured Contracts to have a term of such duration. We searched on the website of the Stock Exchange and identified 18 Hong Kong listed companies that are engaged in the provision of education services in the PRC with contractual arrangements adopted with no specific term, based on the prospectus of these companies published during the period from 1 January 2017 up to and including the Agreement Date. To the best of our knowledge, the aforesaid 18 Hong Kong listed companies identified based on our selection criteria are exhaustive, fair and representative.

Taking into account of the above, we confirm that the duration of the Structured Contracts, which is longer than three years, to be required and it is normal business practice for the Structured Contracts to be of such duration.

Other terms relating to the Acquisition are set out in the Board Letter.

Taking into account the principal terms of the Acquisition as set out above, we consider that the terms of the Acquisition are fair and reasonable.

Financial effects in relation to the Acquisition

With reference to the Board Letter, upon Completion and pursuant to the 1st set of Structured Contracts, the Company will gain effective control of the finance and operations of the Target College, and will enjoy 70.0% of the economic benefits generated by the Target College, notwithstanding the lack of registered ownership of school sponsorship interest in the Target College. Furthermore, the financial results of the Target College will also be consolidated to the consolidated financial statements of the Group.

The unaudited pro forma financial information of the Enlarged Group (the "**Pro Forma Information**") is included in Appendix III to the Circular.

According to the 2021 Annual Report, the audited consolidated total assets and total liabilities of the Group were approximately RMB2,436.5 million and RMB1,163.1 million as at 31 December 2021 respectively. According to the Pro Forma Information, the unaudited consolidated total assets and total liabilities of the Enlarged Group would be approximately RMB3,801.4 million and RMB1,973.0 million respectively as if the Acquisition had been completed on 31 December 2021.

It should be noted that the aforementioned analysis is for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon Completion.

The Framework Procurement Agreements

Set out below are the principal terms of the Framework Procurement Agreements, details of which are set out in the sub-section headed "Framework Procurement Agreements" under the section headed "CONTINUING CONNECTED TRANSACTIONS" of the Circular.

Date

6 July 2022 (after trading hours)

Parties

(i) for the Framework Procurement Agreement I, the parties are the Target College and Nanshan Group;

(ii) for the Framework Procurement Agreement II, the parties are the Target College and Longkou Nanshan; and

(iii) for the Framework Procurement Agreement III, the parties are the Target College and Nanshan Development (together with Nanshan Group and Longkou Nanshan, the "**Procurement Counterparties**").

Term

Subject to the fulfilment of certain conditions precedent, the Framework Procurement Agreements shall be effective upon Completion and shall expire on 31 December 2024.

Subject matter

Pursuant to the Framework Procurement Agreements, the Target College will procure the Group B Goods and Services from the Procurement Counterparties (as the case may be) and their respective subsidiaries and/or associates during the term of the Framework Procurement Agreements.

Transaction principles

As the Framework Procurement Agreements only set out the framework of the transactions to be conducted, individual procurement agreements shall be entered into for the specific Group B Goods and Services to be procured by the Target College.

The terms of the individual procurement agreements shall be negotiated by the parties at arm's length and on normal commercial terms in the ordinary course of business, and shall set out, among others, the scope and standard of the good and services to be procured by the Target College, the consideration payable by the Target College, as well as the settlement method.

The scope of the individual procurement agreements shall not exceed the scope specified under the Framework Procurement Agreements. In the event of conflicts between the terms of the individual procurement agreements and the Framework Procurement Agreements, the terms of the Framework Procurement Agreements shall prevail.

Pricing policies and internal control measures

With reference to the section headed "CONTINUING CONNECTED TRANSACTIONS" of the Circular, the price for the goods and services to be procured pursuant to the Framework Procurement Agreements shall be determined with reference to the price charged by at least two independent third party suppliers who offer same or similar type of goods or services under normal commercial terms, taking into account the quantity of the goods or the specifications of the services procured (where applicable).

As noted from the Circular and as advised by the Directors, the Group B Goods and Services are common goods and services where independent third party suppliers are widely available in the market. Given the aforesaid, we do not doubt the ability of the Group to seek quotation for similar goods and services from at least two independent third party suppliers in the market before procuring such goods and services.

With reference to the sub-section headed "Internal Control Measures" under the section headed "CONTINUING CONNECTED TRANSACTIONS" of the Circular, to ensure that the terms of the transactions under the Framework Procurement Agreements are on normal or better commercial terms and in accordance with the terms of the Framework Procurement Agreements, and compliance with the Listing Rules, the Group will implement certain internal control measures (the "**CCTs IC Measures**") relating to the transactions contemplated under the Framework Procurement Agreements. Having considered the internal control measures, in particular (i) relevant staffs will report to the finance department of the Target College when possible connected transaction arises during the course of business of the Target College; (ii) relevant business department of the Target College will obtain quotations and transaction terms from independent third parties in accordance with the pricing policies of the Procurement Framework Agreements; (iii) management of the Target College will approve the possible connected transaction having assessed the terms and price of the transaction; and (iv) the finance department of the Target College will regularly monitor the transaction amounts under the Procurement Framework Agreements regularly to ensure that the transaction amount will not exceed the proposed annual caps, we consider the effective implementation of the internal control measures will ensure fair pricing of the transactions contemplated under the Framework Procurement Agreements and in compliance with its pricing policy.

With reference to the Circular, the Internal Control Consultant was engaged to conduct an evaluation of the Target College's internal control system. As part of the engagement, the Target College consulted with the Internal Control Consultant to identify the factors relevant to enhancing its internal control system and the steps to be taken, and the Internal Control Consultant made a number of recommendations (including establishing management system for compliance procedures in respect of the Listing Rules and relevant regulations). Having considered the report prepared by the Internal Control Consultant, the Target College's directors confirmed that all of the major recommendations provided by the Internal Control Consultant (including establishing management system for compliance procedures in respect of the Listing Rules and relevant regulations which the CCTs IC Measures form part) have been followed and corrective actions were taken accordingly to address the internal control deficiencies and weakness.

Given the above, we consider that there would be sufficient internal control measures for monitoring the transactions contemplated under the Framework Procurement Agreements.

Proposed annual caps

Set out below are (i) the historical transaction amounts of Group B Goods and Services procurement by the Target College from the Procurement Counterparties for the three years ended 31 December 2021 and the three months ended 31 March 2022; and (ii) the proposed annual caps for the five months ending 31 December 2022 and two years ending 31 December 2024:

	For the year ended 31 December 2019	For the year ended 31 December 2020	For the year ended 31 December 2021	For the three months ended 31 March 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Historical amounts	23,240	21,269	18,788	4,489

	For the five months ending 31 December 2022	For the year ending 31 December 2023	For the year ending 31 December 2024
	RMB'000	*RMB'000*	*RMB'000*
Proposed annual caps	18,500	33,000	37,000

With reference to the Board Letter, the above proposed annual caps were determined based on certain factors, details of which are set out under the sub-section headed "Annual caps and basis of determination" of the section headed "CONTINUING CONNECTED TRANSACTIONS" of the Circular.

To assess the fairness and reasonableness of the proposed annual caps, we obtained from the Company:

(i) breakdown of historical transaction amounts of Group B Goods and Services procured by the Target College from the Procurement Counterparties (the "**Historical Breakdown**"); and

(ii) calculation (the "**Calculation**") of the estimated transaction amounts of Group B Goods and Services to be procured by the Target College from the Procurement Counterparties for each of the three years ending 31 December 2024, comprising (a) the estimated amount of routine procurement by the Target College; and (b) the estimated amounts of additional ancillary services to be outsourced by the Target College.

Upon our enquiry, the Directors advised us that the proposed annual cap for the five months ending 31 December 2022 was determined by (a) the estimated transaction amounts of Group B Goods and Services for FY2022, deducting (b) the estimated transaction amounts of Group B Goods and Services incurred by the Target College for the seven months ending 31 July 2022. We also noted that the estimated transaction amounts of Group B Goods and Services approximate to the proposed annual caps for the years ending 31 December 2023 and 31 December 2024.

Estimated amount of routine procurement

As depicted in the above table, the historical transaction amounts of Group B Goods and Services procured by the Target College from the Procurement Counterparties were approximately RMB23.2 million, RMB21.3 million and RMB18.8 million for FY2019, FY2020 and FY2021, respectively.

Based on the Historical Breakdown, the historical transaction amounts for FY2019 and FY2020 included staff training fees of approximately RMB6.4 million and RMB2.6 million incurred for preparation of new course to be offered by the Target College. With reference to the Circular, the Company does not expect similar staff training to be offered by the Procurement Counterparties in future. Excluding the aforesaid staff training fees, the historical transaction amounts of Group B Goods and Services procured by the Target College from the Procurement Counterparties would have been approximately RMB16.8 million, RMB18.7 million and RMB18.8 million for the years ended 31 December 2019, 2020 and 2021, respectively. The Company considers such amount to be the Target College's routine procurement.

As advised by the Directors, the Target College's routine procurement amounts vary based on its operational need (such as number of student enrolments, number of staff, deterioration of teaching equipment and school facilities). Accordingly, in estimating of the Target College's routine procurement amounts for the three years ending 31 December 2024, the Directors considered (i) the historical routine procurement amounts of approximately RMB18.8 million for the year ended 31 December 2021; and (ii) the estimated annual increase of 11% (the "**Increasing Rate**") for each of the three years ending 31 December 2024.

As advised by the Directors, the Increasing Rate was determined based on (i) the average growth rate of approximately 8.6% in the Target College's total number of student enrolments during the 2018/2019 school year, 2019/2020 school year, 2020/2021 school year and 2021/2022 school year; and (ii) the expected inflation rate of 2% in the PRC.

Based on the Target College's total number of student enrolments during the 2018/2019 school year, 2019/2020 school year, 2020/2021 school year and 2021/2022 school year as set out in the Circular, their average annual growth rate was approximately 8.6%.

According to the National Bureau of Statistics, the PRC consumer price index ranged from 100.9 to 102.9 for the five years ended 31 December 2021, with average increase of 2%.

Given the above, we consider the Increasing Rate to be justifiable.

Estimated amounts of additional ancillary services to be outsourced

As advised by the Directors, the Target College plans to outsource certain of its existing ancillary services (such as cleaning and sanitisation, dormitory management and catering services, which were carried out by in-house staff) (the "**Existing Ancillary Services**") to the Procurement Counterparties from 2022 onward.

According to the Calculation, the estimated amounts of additional ancillary services to be outsourced for the three years ending 31 December 2024 were estimated based on (i) the Target College's staff costs incurred for the Existing Ancillary Services for FY2021 of approximately RMB8 million; and (ii) the Increase Rate of 11%.

Based on the Calculation and its underlying factors as set out above, we considered the estimated transaction amounts of Group B Goods and Services to be procured by the Target College from the Procurement Counterparties for each of the three years ending 31 December 2024 (which approximate to the proposed annual caps) to be justifiable. Accordingly, we are of the view that the proposed annual caps for the five months ending 31 December 2022 and two years ending 31 December 2024 are fair and reasonable.

Shareholders should note that as the proposed annual caps for the five months ending 31 December 2022 and two years ending 31 December 2024 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2024, and they do not represent forecasts of costs to be incurred from the Framework Procurement Agreements. Consequently, we express no opinion as to how closely the actual cost to be incurred from the Framework Procurement Agreements will correspond with the proposed annual caps.

Having considered the principal terms of the Framework Procurement Agreements as set out above, we consider that the terms of the Framework Procurement Agreements (including the proposed annual caps) are on normal commercial terms and are fair and reasonable.

Listing Rules implication on the transactions contemplated under the Framework Procurement Agreements

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the transactions contemplated under the Framework Procurement Agreements must be restricted by the proposed annual cap for the period; (ii) the terms of the transactions contemplated under the Framework Procurement Agreements must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the transactions contemplated under the Framework Procurement Agreements must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the transactions contemplated under the Framework Procurement Agreements (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps. In the event that the total amounts of the transactions contemplated under the Framework Procurement Agreements are anticipated to exceed the annual caps, or that there is any proposed material amendment to the terms of the Framework Procurement Agreements, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the transactions contemplated under the Framework Procurement Agreements and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transactions are on normal commercial terms and are fair and reasonable; and (ii) although the Transactions are not conducted in the ordinary and usual course of the business of the Company, they are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transactions and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *for identification purposes only*

RISKS RELATING TO THE ACQUISITION

Completion is subject to the fulfilment of conditions precedent as set out in the Acquisition Agreement, and may not take place as contemplated, or at all.

Completion is subject to the fulfilment of conditions precedent to completion as set out in the Acquisition Agreement. Certain of these conditions precedent involve the actions and decisions of third parties, including relevant regulatory authorities, which are not within the control of the contracting parties to the Acquisition Agreement. The Company cannot assure its Shareholders that all or any of the conditions precedent as set out in the Acquisition Agreement will be fulfilled or the Completion will take place as contemplated, or at all.

RISKS RELATING TO THE BUSINESS AND THE INDUSTRY

The Target College is subject to uncertainties brought by the 2016 Decision and the 2021 Implementation Rules and other related implementation rules.

The 2016 Decision and Other Related Implementation Rules

The private higher education industry in the PRC is subject to various laws and regulations. Relevant laws and regulations could be changed to regulate the development of the education industry, in particular, the private education markets from time to time. The Target College is regulated by the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》). The 2016 Decision that became effective on 1 September 2017 introduced a number of amendments. Under the 2016 Decision, sponsors of an existing private school engaged in higher education may elect to register the school as a non-profit (the "**Non-profit Private School**") or for-profit private school (the "**For-profit Private School**") at their own discretion. The Target College is not required at this stage to make, and has not made, any decision as to whether the Target College will be registered as a Non-profit Private School or For-profit Private School under the 2016 Decision. For a general description of the key differences between a Non-profit Private School and a For-profit Private School under the framework of the 2016 Decision, please refer to the section headed "Business of the Target College — The Decision on Amending the Law for Promoting Private Education of the PRC and its Implementation Rules in 2021" in this circular for further details. Some of the differences may result in significant changes to the competitive landscape among private schools. In particular, a For-profit Private School may determine the level of its school fees based on its operating conditions, while that of a Non-profit Private School is subject to standards stipulated by local governments, and a Non-profit Private School may receive additional support from the government than a For-profit Private School. Besides, the school sponsors of Non-profit Private Schools are prohibited from receiving income from the operation of the schools and the balance of running such schools shall be only used for the operation of the schools.

According to the 2016 Decision and the Implementing Measures on Classification Registration of Private Schools (《民辦學校分類登記實施細則》) promulgated by five PRC government authorities, including the MOE, on 30 December 2016, existing private schools are required to choose to register as Non-profit Private Schools or For-profit Private Schools with competent government authorities:

- if the sponsor(s) of the Target College elects to register the Target College as a For-profit Private School, the sponsor(s) will be required to (i) undertake financial settlement, which is a process to clarify the ownership and equity of its assets; (ii) have the property rights of the relevant assets, such as land, school buildings and net balance being authenticated by the relevant governmental authorities; (iii) pay the relevant taxes and fees; and (iv) re-register with relevant authorities to continue the school operations. In the absence of any detailed implementation rules, the potential costs and expenses involved and the process necessary to adjust its structure to complete such re-registration are difficult to ascertain, which may materially and adversely affect its business, financial condition and results of operations; or

- if the sponsor(s) of the Target College elects to register the Target College as a Non-profit Private School, (i) the Target College will not be permitted to distribute the operating proceeds to its sponsor(s) and the surplus from school operations can only be applied to its operations; and (ii) the sponsor(s) of the Target College should amend the constitution documents and re-register with the relevant authorities to continue the Target College's operations. The sponsor(s) of the Target College may incur significant administration and financial costs in the re-registration process, which may materially and adversely affect the Target College's business, financial condition and results of operation.

On a local legislation level, on 30 May 2018, the People's Government of Shandong Province promulgated the Opinions of the People' s Government of Shandong Province on Encouraging the Development of Education by Social Forces and Promoting the Healthy and Orderly Development of Private Education (《山東省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) (the "**Shandong Opinions**"). According to the Shandong Opinions, classification registration of private schools (including other private educational institutions) shall be implemented. Private schools which were approved for establishment before 1 September 2017 shall, in principle, complete converting into for-profit or non-profit schools before 1 September 2022. Furthermore, on 12 July 2019, the Education Authority, the Department of Human Resources and Social Security of Shandong Province, the Department of Civil Affairs of Shandong Province, the Office of the Organisation Committee of Shandong Province and the Administration for Market Regulation of Shandong Province jointly issued the Implementation Measures of Classified Approval and Registration of Private Schools in Shandong Province (《山東省民辦學校分類審批登記實施辦法》) (the "**Shandong Measures**"), which includes the requirements and procedures of approval for establishment, classification registration, change of registered events, termination and cancellation of registration, classification registration of existing private schools. However, both the Shandong Opinions and the Shandong Measures do not set out detailed procedures for the election and the registration of current private schools.

The election to register the Target College as a Non-profit Private School or For-profit Private School may have a material impact on its business, financial condition and results of operations, of which the Target College is currently not in a position to accurately assess due to the absence of any detailed implementation rules that have yet to be promulgated by the relevant local governments under the 2016 Decision.

The 2016 Decision was promulgated in November 2016 and the PRC government authorities may further introduce regulations to implement the 2016 Decision. It remains uncertain as to whether such implementation regulations would have any material adverse impact on the Target College's business. In particular, there is significant uncertainty as to tax or other preferential treatments that the Target College may enjoy if it elects to register itself as a Non-profit Private School or For-profit Private School under the 2016 Decision. In addition, there are uncertainties regarding the interpretation and enforcement of the 2016 Decision and relevant regulations by government authorities. While the Target College intends to comply with all new and existing laws and regulations, it cannot assure you that it will always be able to timely and efficiently change its business practice in line with the new regulatory environment. Any such failure could materially and adversely affect its business, financial condition, results of operations and prospects.

The 2021 Implementation Rules

On 14 May 2021, the State Council released the 2021 Implementing Rules, with an effective date of 1 September 2021, which made certain significant changes that may affect private schools. The 2021 Implementation Rules further promotes the development of private education by providing that (i) a private school may enjoy the preferential tax policies stipulated by the State and a Non-profit Private School may enjoy the same tax policies as a public school; and (ii) the local people's governments shall grant preferential treatments in terms of land use by means of allocation in accordance with the principle of treating Non-profit Private Schools equally as public schools, and for schools that provide education for academic credentials, may provide lands by means of bid invitation, auction or listing, assigning contracts, long-term lease or combination of sale as well as rental and may permit payment in instalments.

The 2021 Implementation Rules stipulates further provisions of the operation and management of private schools which may affect the Target College. Among other things, (i) a Non-profit Private School shall use the accounts filed with the competent authorities for charging fees and financial transactions, and a For-profit Private School shall deposit the income into a specific settlement account of its own; (ii) at the end of each financial year, a For-profit Private School shall set aside a portion of not less than 10% of its audited annual net income, and a Non-profit Private School shall set aside a portion of not less than 10% of its audited annual net increase in assets, as the development fund, which shall be used for the development of the school; (iii) private schools that provide compulsory education are not allowed to enter into transactions with their interested parties, and other private schools shall conduct transactions with their interested parties in a manner that is open, justified and fair, shall be reasonably priced, shall establish standardised decision-making for such transactions and shall not harm the interests of the State, schools and teachers and students. Private schools shall set up an information disclosure mechanism for dealing with their interested parties. The relevant governmental authorities, such as the education department, the human resources and social security departments and the financial departments, shall strengthen the supervision of the agreements entered into between Non-profit Private Schools and their interested parties, and shall review the connected transactions annually; (iv) the registered capital of a private school shall be paid in full when it is formally established and shall be compatible with the type, level and scale of the school; (v) any social organisations or individuals shall not control compulsory education private schools or Non-profit Private Schools that implement preschool education through mergers or "structured contracts"; and (vi) for any change of school sponsor of a private school, an alteration agreement shall be entered into but shall not involve the legal property of the school, nor shall it affect the development of the school, or damage the rights and interests of teachers and students; the existing school sponsor may, in accordance with its lawful rights and interests, enter into agreements with the successional school sponsor to stipulate the income from the alteration.

With respect to requirement (iii) above, the Contractual Arrangements may be regarded as connected transactions of the Target College and we may incur substantial compliance costs for establishing disclosure mechanisms and undergoing review by the relevant government authorities. Such process may not be in the control of the Target College and us and may be highly complicated and burdensome and may divert management attention. Government authorities may, during their review process, compel us to make modifications to the Contractual Arrangements for whatever reason or the parties to the Contractual Arrangements may need to reduce the amount of service fees it could charge from the Target College or make other changes to the terms of the Contractual Arrangements to comply with the open, fair and impartial requirements, which may in turn adversely affect the operation of the Contractual Arrangements. Government authorities may find that one or more agreements underlying the Contractual Arrangements do not comply with applicable PRC laws and regulations and may subject us to severe penalties, resulting in material adverse impact on its operation and financial condition.

Uncertainties exist with respect to the interpretation of the 2021 Implementation Rules and the Target College cannot assure you that the implementation of the 2021 Implementation Rules by the competent authorities will not deviate from the Target College's current understanding or interpretation of it.

Given the evolving regulatory environment, there is uncertainty as to the interpretation and application of the 2021 Implementation Rules with respect to various aspects of the operations and benefits enjoyed by the Target College after converting to a For-profit Private School, such as the preferential tax treatment. To the extent that the Target College is not able to fully comply with these requirements, its business, financial condition and results of operations may be materially and adversely affected. We are unable to predict with certainty the impact, if any, that future legislation or regulations relating to the implementation of the laws promoting private education in the PRC will have on the Target

College's business, financial condition and results of operations. As at the Latest Practicable Date, we had not been notified of or been subject to any material fines or other penalties under any PRC laws or regulations in respect of the Target College's existing structure and the proposed entering into of the Contractual Arrangements. However, if the Target College's existing structure or the Contractual Arrangements are deemed to violate any rules, laws or regulations, it may be required to terminate or amend the Contractual Arrangements, its licence to operate the schools may be revoked, cancelled or not renewed and it may be exposed to other penalties as determined by the relevant government authorities. The Target College may also be restricted from further expanding itself. If such situations occur, the Target College's business, financial condition and prospects would be materially and adversely affected.

The Target College's business is heavily dependent on the market recognition of its brand and reputation.

In the 2020/2021 school year, the Target College ranked third in all private undergraduate institution in Shandong Province in terms of full-time student enrolment. It believes that its success is heavily dependent on its market recognition of the brand and reputation. Its ability to maintain its brand recognition and reputation depends on a number of factors, some of which are beyond its control. It may become difficult to maintain the quality and consistency of the services it offers while it continues to grow in size and expand its business and services, which in turn may lead to diminishing confidence in its brand name.

A number of factors can potentially impact the Target College's reputation, including, but not limited to, its teachers and their teaching quality, the levels of students' and parents' satisfaction with the programmes, negative press, accidents on campus, teacher or student scandals, disruptions to its educational services, failure to pass an inspection by a government educational authority, loss of accreditation and unauthorised use or infringement of the brand by the Target College's employees, cooperative partners and other third parties. If the Target College's reputation is damaged, students' and parents' interest in it may decrease and its business could be materially and adversely affected.

The Target College also promotes its brand by conducting certain marketing activities, such as advertisement on WeChat and other social media platforms and onsite visits to a number of high schools to introduce its schools and educational programmes. However, the Target College cannot assure you that its marketing methods will be successful or sufficient in the future or any additional marketing efforts it undertakes will be successful or sufficient in further promoting its brand or in helping it to remain competitive. If the Target College is unable to further enhance its reputation and increase market awareness of its programmes and services, or if the Target College is required to incur excessive marketing and promotional expenses in order to remain competitive, its business, financial condition and results of operations may be materially and adversely affected. If the Target College is unable to maintain or sustain its brand reputation and recognition, it may also be unable to maintain or increase student enrolment, which in turn may have adverse effect on its business, financial condition and results of operations.

The Target College's business has been and is likely to continue to be severely interrupted by the outbreak of COVID-19.

In response to the outbreak of COVID-19, the PRC government enacted a number of measures, including extending the Chinese New Year holiday, instituting mandatory quarantine, requiring residents in the PRC to remain at home and to avoid gathering in public. The outbreak of COVID-19 in the PRC has also resulted in the temporary closure of many corporate offices, retail stores and manufacturing facilities across the country. Schools were not allowed to reopen their campuses for the spring semester of the 2019/2020 school year until notified by the MOE and the local provincial governments. In this connection, the Target College postponed the full opening of the school campuses till mid-June 2020. Besides, to facilitate learning during the period of campus closure, the Target College began to offer online courses for the 2019/2020 spring semester since February 2020. Since its students only lived partially on campus during the spring semester of the 2019/2020 school year, it was required by the PRC government authorities to refund a portion of the boarding fees already collected from its students in the beginning of the 2019/2020 school year, which were initially recognised as contract liabilities of approximately RMB10.5 million. In addition, the Target College's boarding fee revenue decreased from approximately RMB24.9 million for the year ended 31 December 2019 to approximately RMB16.9 million for the year ended 31 December 2020. In the event that the COVID-19 pandemic cannot be fully controlled, students may be required to stay away from school campuses, which may adversely affect the amount of boarding fees the Target College is able to collect and recognise. It may also incur additional costs as it deals with the COVID-19 pandemic, such as the costs to maintain sanitation and invest in online technology upgrade. As at the Latest Practicable Date, the Target College had reopened, and students and faculties have returned to campus. Despite the fact that many of the Target College's courses can be taught online, it cannot assure you that teaching courses online can be as effective as teaching them offline. Students may be easily distracted while attending courses at home through the Internet. Some of them may even have limited access to the Internet. It may also not be easy for teachers to track class attendance, deliver courses efficiently and engage students to learn effectively in an online setting. Moreover, certain courses of the Target College involve practical training that is provided to the students in separate practical training bases or laboratories, which cannot be duplicated online. All of the above may compromise the quality of the education services and adversely affect the outcome of teachers' instructions.

While many of the restrictions on movements within the PRC had been relaxed as at the Latest Practicable Date, there is still uncertainty as to the future progress and impact of the disease. The relaxation of the restrictions on economic and social life may lead to development of new cases, which may result in the reimposition of further restrictions. The Target College will continue to monitor the development of COVID-19 and assess the impact on its business operation.

The business and results of operations depend on the level of tuition fees and boarding fees the Target College is able to charge and its ability to maintain and raise tuition and boarding fees.

One of the most significant factors affecting the Target College's profitability is the tuition fees it charges. For the Track Record Period, tuition fees from the Target College accounted for approximately 86.5%, 87.9%, 86.2% and 90.8%, respectively, of its total revenue, while the boarding fees accounted for the 8.3%, 5.2%, 7.8% and 8.2% respectively, of its total revenue. The Target College determines its tuition rates based on the demand for and the quality of its educational programmes, the cost of operations, the market, the tuition charged by its competitors, its pricing strategy to gain market share and general economic conditions in the PRC. The Target College's new tuition fee rates will only be applicable to newly enrolled students and tuition fee rates for existing students will not be affected. The Target College raised the tuition fee rates for certain majors in the 2020/2021 school year and raised its boarding fee rates in the 2021/2022 school year. However, there can be no assurance that the Target College will be able to maintain or raise the tuition and/or boarding fee levels it charges in the future. Even if the Target College is able to maintain or raise tuition fees and/or boarding fees, it cannot assure you that it will be able to attract prospective students to apply for the Target College at such increased fee rates. The Target College's business, financial condition and results of operations may be materially and adversely affected if it fails to maintain or raise the tuition fees or attract sufficient prospective students.

The Target College is subject to compliance requirements relating to the teacher-to student ratio.

According to the School Condition Notice promulgated by the MOE in 2004, the qualified teacher-to-student ratio of the Target College, which provides higher education should be maintained at a level of not less than 1:18, and the applicable restrictive teacher-to-student ratio of the Target College shall be not less than 1:22. The Target College did not fully meet the regulatory requirements of the qualified teacher-to-student ratio during the Track Record Period. The teacher-to-student ratios of the Target College in the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years were 1:18.8, 1:20.5, 1:20.8 and 21.9, respectively. For details, please refer to the section headed "Business of the Target College — Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this circular.

According to the School Condition Notice, the teacher-to-student ratio is one of the basic school operating condition indicators (the "**Basic Indicators**") of a higher education institution that are categorised into "Qualified Standard" (which includes, among other requirements, the teacher-to-student ratio of 1:18) and "Restrictive Standard" (which includes, among other requirements, the teacher-to-student ratio of 1:22). As advised by the PRC Legal Advisers, in the event that any of the Basic Indicators of a school does not satisfy the Restrictive Standard, the school may receive a yellow card issued by the competent authority and its student admission shall not exceed the number of the graduates in the same year; and in the event that a school receives a yellow card for three consecutive years or that two or more of the Basic Indicators of a school do not meet the Restrictive Standard, it may receive a red card issued by competent government authority and its student admission shall be subject to suspension.

While the Target College had not received any yellow or red card, it will continue to monitor and adjust the teacher-to-student ratio as necessary and where applicable based on the needs of its increasing student enrolments and its education plans and activities without compromising the quality of its education or profitability. The Target College cannot assure you that it can recruit and retain a sufficient number of qualified teachers to comply with the regulatory teacher-to-student ratio requirement. In addition, while the Target College has not received any yellow or red card from the competent government authorities in relation to its compliance with the teacher-to-student ratio during the Track Record Period and up to the Latest Practicable Date, it cannot assure you that the relevant authorities will not impose any fines or penalties on the Target College for not complying with the regulatory requirements in the future. If the relevant authorities impose fines or penalties on the Target College, its business, financial condition, future prospects and results of operations may be adversely affected.

If the Target College is unable to continue to attract students to enrol in the courses without a significant decrease in the fees it charges, its revenue may decline and it may not be able to maintain profitability.

The success of the Target College's business also depends on the number of students enrolled in the courses that it offers and the amount of tuition fees that the students are willing to pay. As a result, the Target College's ability to continue to attract students to enrol in the courses without a significant decrease in tuition fees is vital to the continuing success and growth of its business. This, in turn, will depend on several factors, including the Target College's ability to develop new educational and practical training programmes and enhance existing programmes to respond to changes in the market trends and student demand, maintain the consistency of its teaching quality, effectively market its programmes to a broader prospective student base, develop and licence additional high-quality educational content and respond to competitive pressures. If the Target College is unable to continue to attract students to enrol in its courses without a significant decrease in tuition fees, its revenue may decline and it may not be able to maintain profitability.

The Target College's continuing success depends on its ability to attract and retain its senior management and other key personnel.

The Target College depends on its senior management and other key personnel for the smooth operations and execution of its business plans. The continuing services of its senior management team and other key personnel such as teachers, executives and teaching assistants are vital to its future success.

If one or more of the Target College's senior management and other key personnel are unable or unwilling to continue their employment, it may not be able to replace them with qualified and experienced personnel in a timely manner, or at all, which may disrupt the Target College's business and materially and adversely affect its results of operations and financial conditions. There is intense competition for hiring qualified and experienced educators in the private higher education industry in the PRC, and the pool of qualified candidates is very limited. The Target College may not be able to retain experienced senior management members or other key personnel in the future. In the event the Target College loses their services, or if any member of the senior management team or other key personnel joins the competitors or forms a competing company, it could result in a material and adverse effect on its business, results of operations and financial condition.

The Target College faces intense competition in the PRC education industry and its business, financial condition and results of operations may be adversely affected if it is unable to compete effectively.

According to the Industry Report, the private higher education industry in China is rapidly evolving and is highly fragmented and competitive, with participants in the industry facing increasingly intense competition.

The Target College primarily competes with other schools in Shandong and elsewhere in China that offer similar programmes, including universities that also specialise in programmes of engineering, business, humanities, chemical engineering and technology, materials science and engineering, textile science and engineering, health, music, aviation, applied technology and international exchange and cooperation. It competes with these schools across a range of factors, including programme and curriculum offerings, school location and facilities, expertise and reputation of teachers, tuition fee levels, and cooperative relationships with reputable companies in various industries. Public schools may enjoy preferential treatment from governmental authorities in respect of, among other things, government subsidies. The Target College's competitors may adopt similar curriculums, teaching methods, school support and marketing approaches, with different pricing and content that may be more appealing to students and their parents. In addition, some of the Target College's competitors may have better connections with companies in various industries or more resources than the Target College does and may be able to devote greater resources than the Target College to the development and promotion of their schools and respond more quickly than the Target College to the changes in student demand, market needs or new technologies. As such, the Target College may be required to reduce tuition fees and boarding fees or increase spending in response to competition in order to retain or attract students or pursue new market opportunities. If the Target College is unable to successfully compete for new students, maintain or increase its tuition levels, attract and retain competent teachers or other key personnel, enhance the quality of its education services or control competition costs, its business and results of operations may be materially and adversely affected.

The Target College's business relies on its ability to recruit and retain dedicated and qualified teachers and other school administrative personnel.

The Target College relies heavily on its teachers to deliver educational services to its students. Its teachers are vital to maintain the quality of its educational programmes and services and to uphold its reputation. According to the Regulations on Teacher Qualification Certificates (《教師資格條例》), personnel specialised in teaching activities in schools and other educational institutions must obtain teacher qualification certificates (教師資格證書). However, during the Track Record Period, certain teachers of the Target College did not obtain the teacher qualification certificate. Please refer to the section headed "Business of the Target College — Teachers of the Target College" in this circular for further details.

To maintain the quality of the educational services and further expand the business, the Target College needs to continue to attract and retain qualified teachers who meet its required standards. The Target College seeks to hire teachers who have relevant expertise in their respective teaching subject areas. The number of teachers with the relevant experience and qualifications to conduct and deliver the courses offered by the Target College is limited. There is no guarantee that the Target College can recruit and retain such personnel in the future. To do so, the Target College must provide competitive compensation and benefit packages to attract and retain qualified teachers and school administrative personnel. In addition, criteria such as work ethics, commitment and dedication are difficult to ascertain during the recruitment process, particularly as the Target College continues to expand and increase the number of teachers and other school administrative personnel quickly in order to meet the increase in student enrolment. The Target College must also provide on-going training to its teachers in order for them to stay abreast of any changes in industry standards, student demands, developments in popular culture and other key trends necessary to effectively conduct and deliver their respective courses.

Moreover, the Target College may not be able to hire and retain sufficient qualified teachers and school administrative personnel to keep up with its anticipated growth while maintaining consistent teaching quality and overall quality of its education programmes offered. If the Target College is unable to recruit and retain an appropriate number of qualified teachers and school administrative personnel, the quality of its services or overall education programmes may decrease or be perceived to decrease, which may in turn have a material and adverse effect on its reputation, business and results of operations.

The Target College is exposed to concentration risks as it is only located in Shandong Province.

The Target College is only located in Shandong Province. It is anticipated that the Target College's business operations in the foreseeable future will likely be concentrated in Shandong Province. If Shandong Province experiences any event that adversely affects its education industry, such as negative changes in local government policies relating to the restrictions on student enrolment and tuition fees and/or boarding fees of private education service providers, a serious economic downturn, a natural disaster or an outbreak of a contagious disease, the Target College's business, financial condition, results of operations and growth prospects could be materially and adversely affected.

Career prospect of the graduates of the Target College may decline, which may lead to less satisfaction with the quality of education it provides.

The Target College cannot guarantee that it will continue to be able to design or modify its curriculums to meet the expectations of the students, prospective employers or trends in the job market. The Target College may not be able to devote the same amount of resources in training its students, setting up simulated training facilities, enhancing students' practical skills and helping them secure jobs as it did in the past, or its efforts may not be as effective as it is used to be. The career prospect of the graduates of the Target College is also impacted by the general economic conditions. In the event there is a prolonged economic downturn in China and the Shandong Province, in particular, employment opportunities in China and the Shandong Province may be materially and adversely affected. The graduates of the Target College may therefore be unable to obtain satisfactory jobs and the career prospect of its graduates may decrease. Any negative development of the career prospect of the graduates of the Target College may harm the reputation and new student enrolment of the Target College, which may have a material and adverse impact on its business, financial condition and results of operations.

Meanwhile, the Target College cannot guarantee that it will continue to be able to design or modify its curricula to meet the expectations of the students, prospective employers or trends in the job market. It might not be able to devote the same amount of resources to training its students, enhancing their practical skills and helping them secure jobs as it did in the past, or its efforts may not be as effective as they used to be. Graduates of the Target College may therefore be unable to obtain satisfactory jobs and the average starting salaries of its graduates may decrease. In addition to the education offered at the Target College, there are other factors that are beyond the Target College's control but may also have influences on starting salaries, such as general economic condition and the capability of students. Any negative development of the graduate's average starting salaries for whatever reasons may harm the reputation of the Target College and its new student enrolment figures, and may therefore have a material and adverse impact on its business, financial condition and results of operations.

The Target College's students or their parents may not be satisfied with the students' academic performance, which may have a negative impact on the Target College's reputation.

The success of the Target College's business relies on its ability to maintain the quality of education it provides. The Target College may not be able to meet students' and parents' expectations for academic performance. A student may not experience expected academic improvement or acquire desired skills or his or her performance may otherwise decline significantly due to reasons beyond the Target College's control. There is no assurance that the Target College can provide school learning experiences that are satisfactory to all of its students. Student and parent satisfaction with the Target College's educational programmes may decline. The Target College may also experience negative publicity or its marketing efforts may be ineffective. Any such negative developments could result in students' withdrawal or unwillingness to apply for admission to the Target College, and therefore, could have a material and adverse impact on its reputation. If the Target College's student registration or retention rate decreases substantially or if it otherwise fails to continue to attract and admit students of a suitable standard or at all, its business, financial condition, results of operations and prospects may be materially and adversely affected.

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

The Target College is required to obtain and maintain various approvals, licences and permits to fulfil registration and filing requirements in order to conduct its business and provide educational services to its students. For instance, it is required to obtain a private school operation permit from the MOE in order to establish and operate a school in the PRC. It is also required to register with the local civil affairs bureau to obtain a certificate of registration for a privately run non-enterprise unit or legal entity. In addition, it needs to pass annual inspections conducted by the local civil affairs business and local education bureau in the PRC.

While the Target College intends to obtain, with its best efforts, all requisite permits and complete all necessary filings, renewals and registrations on a timely basis, there is no assurance that it will be able to obtain all required permits given the significant amount of discretion of the relevant PRC authorities may have in interpreting, implementing and enforcing relevant rules and regulations. In addition, other factors that are beyond its control and anticipation may also affect its ability to obtain all requisite permits and licences. If the Target College fails to receive required permits in a timely manner or fail to obtain or renew any permits and certificates, it may be subject to fines, confiscation of any gains derived from its non-compliant operations, suspension of its non-compliant operations or compensation of any economic loss suffered by its students or other relevant parties, which may materially and adversely affect its business and results of operations.

The Target College is subject to extensive governmental approvals and compliance requirements for establishing its campuses and school premises.

The Target College may, from time to time, renovate its existing campuses or establish new campuses and school premises for the growth and expansion of the business. In order to construct and develop campuses and school premises, the Target College must obtain requisite permits, certificates and other relevant approvals from different administrative authorities at various stages of property development. For example, these approvals include, but not limited to, planning permits, construction permits, land use rights certificates, certificates for passing the fire design inspections and the fire control assessments, environmental protection inspections and construction completion acceptance inspection, as well as building ownership certificates. The Target College may encounter problems when fulfilling the conditions precedent to the receipt of requisite permits, certificates and approval. In addition, it is not guaranteed that the Target College may be able to obtain these requisite permits, certificates and approval in a timely manner, or at all. Failure to obtain these requisite permits, certificates and approvals may subject the Target College to administrative fines and other penalties, and may cause delays to put new campuses or new buildings into use, which may adversely affect the Target College's student recruitment and growth strategies. In particular, some of the properties the Target College uses for its operations are not in compliance with the applicable laws and regulations in the PRC. As at the Latest Practicable Date, the Target College utilised eight buildings with an aggregate gross floor area of 59,942.8 sq.m. for dormitory and teaching purposes that it did not obtain the relevant building ownership certificates as a result of its failure to obtain relevant approvals at various stages of development. Please also refer to the section headed "Business of the Target College — Properties" in this circular for further details.

Moreover, the Target College may be ordered to relocate, which may disrupt its business and cause it to incur additional expenses, which in turn may materially and adversely affect its business, results of operations and financial condition.

Failure to make adequate statutory social insurance contribution for the employees may subject the Target College to penalties.

Pursuant to the PRC laws and regulations, the Target College is required to participate in various social welfare plans for its employees, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund. The Target College is required to contribute to these plans and funds at the levels specified by relevant local government authorities from time to time. According to the relevant PRC laws and regulations, the amount the Target College is required to contribute for each of its employees should be calculated based on the employee's actual salary level of previous year, and be subject to a minimum and maximum as prescribed by local authorities from time to time.

During the Track Record Period, the Target College had not made the required contributions to the social welfare plans for certain of its employees. As a result, it has not been able to make full contributions to the social insurance plans and housing provident funds for the employees. For more information, please refer to the section headed "Business of the Target College — Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this circular.

The Target College cannot assure you that its employees will not complain to relevant authorities by reporting its failure to make full contributions to the social welfare plans. Moreover, it cannot assure you that relevant local government authorities will not require the Target College to pay the outstanding amount within a prescribed time or impose penalties or overdue fines on it, which may in turn adversely affect its financial condition.

Our contractual and legal right to lease certain properties could be adversely challenged by property owners or other third parties.

As at the Latest Practicable Date, the Target College leased 26 properties with a total gross floor area of approximately 192,325.84 sq.m. from the Nanshan Group pursuant to a leasing agreement entered into by the Target College and the Nanshan Group on 1 December 2021 for a period from 1 December 2021 to 30 November 2031. For the seven properties used for teaching activities, dormitories, sports square, carpark and library with a gross floor area of approximately 57,014.0 sq.m., the Target College's landlord, the Nanshan Group, has not provided the Target College the relevant building ownership certificates.

As a result, there is a risk that the landlord from whom the Target College lease such premises may not have the right to lease such buildings to the Target College. As advised by the PRC Legal Advisers, in the event that the Nanshan Group does not have valid building ownership certificates, the relevant lease agreement may be deemed invalid or the Target College may face challenges from property owner or other third parties to the lessor's rights. If such lease is terminated as a result of challenges by third parties to the lessor's rights, the Target College may be forced to relocate the affected premises and incur significant expenses, which may affect the Target College's operations, and could adversely affect its business, financial condition and results of operations.

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

The Target College's future success is dependent on the acceptance, development and expansion of the market for private education services in China. The private education services market started to develop in the early 1980s and experienced rapid growth in the 1990s. It has grown significantly due to favourable policies enacted by the PRC government. In 1997, the State Council of the PRC promulgated the first regulation to promote the private for-profit education industry in China. The Standing Committee of the NPC published the Law for Promoting Private Education of the PRC on 28 December 2002, which later became effective on 1 September 2003. On 7 November 2016, the 2016 Decision, which made certain amendments to the Law for Promoting Private Education was approved by the Standing Committee of the NPC, and later became effective on 1 September 2017. According to the 2016 Decision, sponsors of private schools can choose to establish schools as non-profit or for-profit entities, with the exception that schools providing compulsory education can only be established as non-profit entities. For risks associated with the 2016 Decision, please refer to the paragraph headed "— The Target College is subject to uncertainties brought by the 2016 Decision and the 2021 Implementation Rules and other related implementation rules" in this section.

The development of this industry has been accompanied by significant press coverage and public debate concerning the management and operation of private schools. Significant uncertainty remains in the PRC as to public acceptance of this business model. In addition, there is substantial uncertainty relating to the application and interpretation of PRC law as it relates to the promotion of the private for-profit education industry. There is also significant uncertainty as to the preferential tax treatments or other preferential treatments that the Target College will enjoy (whether as Non-profit Private Schools or as For-profit Private Schools if it chooses to register the Target College as such) after the 2016 Decision came into force. However, there may also be uncertainty in terms of the interpretation and enforcement of the 2016 Decision and the 2021 Implementation Rules by the relevant government authorities. Please refer to the section headed "Regulatory Overview Relating to the Target College — Regulations on Private Education in the PRC" in this circular for further details. If the private education business model fails to gain traction or wide acceptance among the general public in the PRC, especially among students and their parents, or if the favourable regulatory environment otherwise changes in the future, the Target College may be unable to grow its business.

The historical financial and operating results of the Target College may not be indicative of its future performance.

The Target College experienced increase in revenue during the Track Record Period. Its historical growth was primarily driven by the increase in number of students enrolled. Its business, financial condition and results of operations may be affected due to a number of factors, many of which are beyond the Target College's control. These factors include, but not limited to public perception of the private education industry in China, its ability to maintain and increase student enrolment and its ability to maintain and raise tuition and boarding fees. It may not be able to continuously and successfully increase the number of students admitted due to prescribed quotas and/or its limited capacity, as a result, it may not be successful in carrying out its growth strategies and expansion plans.

The Target College cannot assure you that it will be able to sustain the Target College's past growth rates in future periods, and the Target College may not be able to sustain profitability on a quarterly, interim or annual basis in the future. The Target College generally requires students to pay tuition fees and boarding fees for the school semester upfront prior to the commencement of the school semester, and recognises revenue for the tuition fees and boarding fees proportionately over the course of the relevant period in a school year. However, the timing of the Target College's recording of its costs and expenses do not necessarily correspond with the timing of its recognition of revenue. Its interim results, growth rates and profitability may not be indicative of its annual results or its future results. In addition, its historical interim and annual results, growth rates and profitability may not be indicative of its future performance for the corresponding periods.

The Target College may not be able to secure additional funding to fund its planned operations.

The operation and establishment of a private education institution requires significant initial capital investment, such as the costs of acquiring land for school site, constructing school facilities, purchasing equipment and hiring qualified teaching and administrative staff. In order to support the Target College's current operation, and to fund its future growth plans, it needs to secure additional funding for such future capital expenditures. If the Target College is unable to obtain financing in a timely manner, at a reasonable cost and on acceptable terms, it may be forced to delay its expansion plans, or downsize or abandon such plans, which may materially and adversely affect its business, financial condition and results of operations, as well as its future prospects.

In addition, on 28 May 2020, the National People's Congress enacted the Civil Code of the PRC (《中華人民共和國民法典》) (the "**PRC Civil Code**"), with an effective date of 1 January 2021. The PRC Civil Code provides that non-profit legal persons established for public welfare, such as schools, kindergartens and medical institutions, shall not mortgage their educational facilities, health care facilities and other public welfare facilities. The properties that the Target College owns and occupies may be considered "public welfare facilities" according to the Law for Promoting Private Education and the relevant regulations and interpretations, which provides that private education is considered in the nature of "public welfare" in the PRC. It may be interpreted that the PRC Civil Code limits the prohibition on property mortgage only to Non-profit Private Schools. However, substantial uncertainties still exist regarding the interpretation and application of the PRC Civil Code after its effectiveness. If the relevant PRC government authorities take a different view, these properties used as educational facilities may not be pledged as collateral when the Target College enters into loan agreements with banks.

In such case, its ability to obtain financing to fund its operations by using its properties as collateral will be limited. Even if its properties are used as collateral under any loan agreement entered into between the Target College and the potential lender, such pledge may not be valid or enforceable under the laws and regulations of the PRC. It cannot preclude the possibility that a government authority, including the PRC court or administrative authority, may consider the pledge created on such facilities to be in violation of PRC laws if any dispute arises between the Target College and the lender with regards to the relevant loans under applicable loan agreements. Moreover, it cannot preclude the possibility that government authorities may challenge the validity of such loan agreements at any time.

The appraisal value of the properties of the Target College may be different from their actual realisable value and subject to uncertainty or change.

The property valuation report set out in Appendix IV to this circular with respect to the appraised value of properties of the Target College are based on various assumptions, which are subjective and uncertain in nature. The assumptions that Jones Lang LaSalle Corporate Appraisal and Advisory Limited used include (i) the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or similar arrangement, which could serve to affect the values of the property interests; (ii) no allowance has been made for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale; and (iii) the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value. Certain of the assumptions used by Jones Lang LaSalle Corporate Appraisal and Advisory Limited in reaching the appraised value of the properties of the Target College may be in accurate. Hence, the appraised value of the properties of the Target College should not be taken as their actual realisable value or a forecast of their realisable value. Unexpected changes to the properties of the Target College and to the national and local economic conditions may affect the value of those properties. You should not place undue reliance on such appraised value attributable to those properties prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

The Target College may be involved in legal and other disputes and claims from time to time arising out of its operations.

The Target College may, from time to time, be involved in disputes with and subject to claims by parents and students, teachers and other school personnel, and other parties involved in its business. It cannot assure you that when legal actions arise in the ordinary course of the Target College's business, any of the legal actions will be resolved in its favour. In the event that such legal actions cannot be resolved in its favour, the Target College may be subject to uncertainties as to the outcome of such legal proceedings and its business operations may be disrupted. Legal or other proceedings involving the Target College may result in incurring significant costs, divert management's attention and other resources, negatively affect its business operations, cause negative publicity against it or damage its reputation, regardless whether the Target College is successful in defending such claims or proceedings. As a result, the Target College's business, financial condition and results of operations may be materially and adversely affected.

If the Target College fails to protect its intellectual property rights or prevent the loss or misappropriation of its intellectual property rights, it may lose its competitive edge and its brand, reputation and operations may be materially and adversely affected.

Unauthorised use of any of the Target College's intellectual property may adversely affect its business and reputation. The Target College relies on a combination of copyright, trademark and trade secrets laws to protect its intellectual property rights. Nevertheless, third parties may obtain and use its intellectual property without due authorisation. 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. It may also need to resort to litigation and other legal proceedings to enforce its intellectual property rights. Any such action, litigation or other legal proceedings could result in substantial costs and diversion of its management's attention and resources and could disrupt its business. In addition, there is no assurance that it will be able to enforce its intellectual property rights effectively or otherwise prevent others from the unauthorised use of its intellectual property. Failure to adequately protect its intellectual property could materially and adversely affect its brand name and reputation, and its business, financial condition and results of operations.

Unauthorised disclosures, use or manipulation of student, teacher and other sensitive personal data, whether through breach of the Target College's network security or otherwise, could expose the Target College to litigation or could adversely affect the Target College's reputation.

Maintaining the Target College's network security and internal controls over access rights is of vital importance because proprietary and confidential student and teacher information, such as names, addresses, and other personal information, are primarily stored in its computer database located on campus. If its 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 teacher records, which could subject it to liabilities, interrupt the Target College's business and adversely affect its reputation. Additionally, the Target College runs the risk that its employees or third parties may misappropriate or illegally disclose confidential educational information in its possession. As a result, the Target College 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, which may in turn adversely affect its business and financial conditions.

RISKS RELATING TO THE CONTRACTUAL ARRANGEMENTS

The PRC government may find that the Contractual Arrangements do not comply with applicable PRC laws and regulations, which may subject the Target College to significant penalties and its business may be materially and adversely affected.

In order to establish the structure for operating the business in the PRC, a series of arrangements will be entered into to enable the Company to receive certain economic benefits from the Contractual Arrangements upon Completion. Please refer to the section headed "Contractual Arrangements" in this circular for more information.

The Company is a Cayman Islands company and therefore, it is classified as a foreign enterprise under PRC laws. Foreign investment in the education industry in the PRC is extensively regulated and subject to numerous restrictions. Under the Negative List, higher education is a restricted industry for foreign investors. Foreign investors are allowed to invest in the higher education industry only in the form of cooperative joint venture in which the PRC party must play a dominant role.

Furthermore, under the MOE Opinions, which was issued by the MOE on 18 June 2012, the foreign portion of the total investment in a Sino-foreign joint venture educational institution should be below 50%. According to relevant regulations, the foreign investors invested in private education must be foreign education institutions, with relevant qualifications and experience.

Accordingly, in light of these restrictions, the Company, or its PRC subsidiaries are ineligible to independently operate higher education institutions or control them through holding equity interests. Please refer to the section headed "Contractual Arrangements" in this circular for further information. Accordingly, the Company is expected to be dependent on the Contractual Arrangements to operate the education business upon Completion.

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

- revoking the business and operating licences;

- discontinuing or restricting the operations of any related-party transactions;
- imposing fines or other requirements for non-compliance;
- requiring restructuring the operations in such a way as to compel the establishment of new entities, re-apply for the necessary licences or relocate the relevant businesses, staff and assets; or
- imposing additional conditions or requirements which may not be able to be complied with.

The imposition of any of these penalties may result in a material and adverse effect on the ability to conduct the Group's education business in China and a loss of its economic benefits in the assets and operations of its affiliated entities. In addition, if the imposition of any of these penalties causes the Group to lose the rights to direct the activities of the Target College or its right to receive their economic benefits, the Company would not be able to consolidate such entities.

Significant uncertainties exist in relation to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability or sustainability of the Group's current corporate structure, corporate governance and business operations.

The National People's Congress promulgated the Foreign Investment Law on 15 March 2019, which took effect on 1 January 2020. Under the Foreign Investment Law, foreign investment is defined as any investment activity directly or indirectly carried out in the PRC by one or more foreign natural persons, enterprises or other organisations ("**Foreign Investor(s)**"), and specially stipulates certain forms of investment activities which constitute foreign investment, namely, (a) establishment of a foreign invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor; (b) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor; (c) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor; and (d) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council. On 26 December 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law (《外商投資法實施條例》), which came into effect on 1 January 2020.

Conducting operations through contractual arrangements has been adopted by many PRC-based companies to obtain and maintain required or necessary licences and permits in the industries that foreign investment is currently restricted or prohibited in China. While the Foreign Investment Law does not explicitly stipulate that contractual arrangements is a form of foreign investment, and the Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements, it is possible that contractual arrangements will be recognised as foreign investment under the limb of "investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council" or new laws, administration regulations or provisions prescribed by the State Council may provide for the same. Whether the

Contractual Arrangements will be found or deemed to be in violation of the foreign investment access investments and how the Contractual Arrangements will be handled in such scenarios are uncertain.

In the worst-case scenario, the Group may be required to unwind the Contractual Arrangements and/or dispose the relevant entities, which could have a material and adverse effect on its business, financial condition and results of operations. If, in the Stock Exchange's view, the Company no longer has a sustainable business after the aforementioned unwinding of the Contractual Arrangements or disposal or such measures are not complied with, the Stock Exchange may take enforcement actions against the Company which may have a material adverse effect on the trading of the Shares. Therefore, there are significant uncertainties in relation to the interpretation and implementation of the Foreign Investment Law and its impact to the Contractual Arrangements and the Group's business, financial condition and results of operations.

The Contractual Arrangements may not be as effective in providing control over the Target College as direct ownership.

The Company is expected to rely on the Contractual Arrangements to operate its education business in the PRC upon Completion. For a description of these Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in this circular. These Contractual Arrangements may not be as effective in providing it with control over the Target College as equity ownership. If it had ownership of the school sponsor's interest of the Target College, it would be able to exercise its rights as a direct or indirect holder of the school sponsor's interest of the Target College to effect changes in the board of directors of the Target College, which in turn could effect changes, subject to any applicable fiduciary obligations, at the management level. However, as these Contractual Arrangements stand now, if the Target College, Mr. Song, Nanshan Group, the Designated School Sponsor or the Registered Shareholders fail to perform their respective obligations under these Contractual Arrangements, the Group cannot exercise school sponsor's rights to direct such corporate action as the direct ownership would otherwise entail.

In addition, while it is expected that the Registered Shareholder(s) will, pursuant to the 2^{nd} set of Structured Contracts, pledge and grant first priority security interests over all of his or its equity interest in the Designated School Sponsor together with all related rights thereto to Longkou Zhimin as collateral security for performance of the Contractual Arrangements and all such loss and expenses incurred to Longkou Zhimin as a result of any events of default on the part of the Registered Shareholder(s), there is no equity pledge arrangement between Longkou Zhimin and Mr. Song or the Registered Shareholder(s) in respect of the school sponsor's interest of the Target College held by Mr. Song or the Designated School Sponsor under the Contractual Arrangements. As advised by the PRC Legal Advisers, any equity pledge arrangement where Mr. Song or the Designated School Sponsor pledges his/its school sponsor's interest in the Target College in favour of the Group would be unenforceable under applicable PRC laws and regulations given that the sponsor interests in schools are not pledgeable under the PRC laws and any equity pledge arrangements with respect to its sponsor interests in schools cannot be registered with the relevant PRC regulatory authorities.

The Target College may not be able to satisfy the Qualification Requirement.

Pursuant to the Negative List and the MOE Opinions, the foreign investor in a Sino-foreign joint venture private school offering undergraduate courses and junior college courses must be a foreign educational institution with relevant qualification that provides high quality education (the "**Qualification Requirement**"), holds less than 50% of the capital investment in the Sino-foreign joint venture private school (the "**Foreign Ownership Restriction**") and the domestic party shall play a dominant role (the "**Foreign Control Restriction**") in accordance with the Regulation on Sino-Foreign Cooperation in Operating Schools (《中外合作辦學條例》) and the Implementation Measures for the Regulation of the PRC on Chinese-foreign Cooperative Education (《中外合作辦學條例實施辦法》).

If the Foreign Ownership Restriction and the Foreign Control Restriction applicable to higher education institutions are lifted subsequent to Completion, the Group may be unable to terminate the Contractual Arrangements by acquiring the school sponsor's interests in the Target College before it is in a position to comply with the Qualification Requirement. If the Group otherwise attempts to terminate the Contractual Arrangements by acquiring the school sponsor's interests in the Target College before the satisfaction of the Qualification Requirement, it may be considered by the regulatory authorities to be ineligible for operating schools and could be forced to cease the operation of the Target College which may have a material adverse effect on the Group's business, financial condition and results of operations.

The exercise of the option to acquire the school sponsor's interest by the Group and equity interest in the school sponsor may be subject to certain limitations and the Group may incur substantial costs and expend significant resources to enforce the option under the Contractual Arrangements in the event it is so required by regulatory bodies under applicable laws and regulations.

The Group may incur substantial cost on its part to exercise the option to acquire the school sponsor's interest in the Target College and the equity interest in the Designated School Sponsor.

Pursuant to the 1st Exclusive Call Option Agreement and 2nd Exclusive Call Option Agreement, Longkou Zhimin or its designated purchaser has the exclusive right to purchase all or part of the school sponsors' interest in the Target College and/or the equity interest in the Designated School Sponsor at the lowest price permitted under the PRC laws and regulations. In the event that Longkou Zhimin or its designated purchaser acquires such school sponsors' interest or equity interest and the relevant PRC authorities determine that the purchase price for acquiring the school sponsors' interest or equity interest is below market value, Longkou Zhimin or its designated purchaser 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 the business, financial condition and results of operations of the Group.

The owners of the Target Entities may have conflicts of interest with the Group, which may materially and adversely affect the Group's business and financial condition.

The Group's control over the Target Entities is based upon the Structured Contracts with the Target Entities, Mr. Song, Nanshan Group, the Registered Shareholder(s) and the Appointee(s). Mr. Song, Nanshan Group, the Registered Shareholder(s) and/or the Designated School Sponsor (as the case may be) are or will be the direct holder of the school sponsor's interest in the Target College. Mr. Song, Nanshan Group, the Registered Shareholder(s) and/or the Designated School Sponsor may potentially have conflicts of interest with the Group and breach their contracts or undertakings with the Group if it would further their own interest or if they otherwise act in bad faith. In the event that such conflict of interest cannot be resolved in favour of the Group, the Group would have to rely on legal proceedings which could result in disruption to its business and the Group is subject to any uncertainty as to the outcome of such legal proceedings.

The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional tax may be imposed, which may materially and adversely affect the Group's results of operation.

Any arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities under relevant PRC laws and regulations. The Group could face material and adverse tax consequences if the PRC tax authorities determine that the 1^{st} Exclusive Technical Service and Management Consultancy Agreement or the 2^{nd} Exclusive Technical Service and Management Consultancy Agreement to be entered into with the Target Entities do not represent an arm's-length price and adjust any of those entities' income in the form of a transfer pricing adjustment. An adjustment in transfer pricing may increase its tax liabilities. In addition, the PRC tax authorities may have reasons to believe that the Group's subsidiaries or the Target Entities are avoiding tax obligations, and the Group may not be able to rectify such incident within the limited time period required by the PRC tax authorities. As a result, the PRC tax authorities may impose late payment fees and other penalties on the Group for under-paid taxes, which could materially and adversely affect its business, financial condition and results of operations.

Certain terms of the Contractual Arrangements may not be enforceable under PRC laws.

The Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with the arbitration rules in China. The Contractual Arrangements provide that the arbitral body may award remedies over the equity interests and/or school sponsor's interest, property interests and/or assets of the Target College, injunctive relief or order of winding up of the Target College. In addition, the Contractual Arrangements stipulate that the courts in Hong Kong, the Cayman Islands and the places where the principal assets of the Company and the Target College are located are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, the above-mentioned provisions contained in the Contractual Arrangements may not be enforceable. Under the 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 the Target College in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or equity interest in the Target Entities in favour 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 the PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order as interim remedies to preserve the assets or equity interests in favour of any aggrieved party. As a result, in the event that any of the Registered Shareholders and/or the Target Entities breach any of the Contractual Arrangements, the Group may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the Target College and conduct its education business could be materially and adversely affected. Please refer to the section headed "Contractual Arrangements — Dispute Resolution" in this circular for details regarding the enforceability of the dispute resolution provisions in the Contractual Arrangements.

Substantial uncertainties exist regarding the interpretation and application of the 2016 Decision, including treatments of the schools in the PRC as non-profit schools or for-profit schools.

The Target College's business is regulated by the Law for Promoting Private Education of the PRC, which was subsequently amended by the 2016 Decision promulgated on 7 November 2016 and became effective on 1 September 2017. The 2016 Decision classifies private schools into non-profit schools and for-profit schools based on whether they are established and operated on profit-making basis. The school sponsors of private schools may, at their own discretion, choose to establish Non-profit Private Schools or For-profit Private Schools, with the exception of schools providing compulsory education, which can only be established as non-profit schools.

It remains uncertain as to whether any such new rules and regulations to implement the 2016 Decision would have any material adverse impact on the Target College's business. There is also significant uncertainty as to tax or other preferential treatments that the Target College will be able to enjoy (as Non-profit Private Schools or For-profit Private Schools which it may choose to register) after the 2016 Decision and the relevant regulations come into force. In addition, there are uncertainties regarding the interpretation and enforcement of the 2016 Decision and the relevant regulations by government authorities. Failure to fully comply with the 2016 Decision or any relevant regulations as interpreted by the relevant government authorities may subject the Target College to administrative fines or penalties or other negative consequences which could materially and adversely affect the Target College's brand name and reputation, as well as the business, financial condition and results of operations of the Target College.

As at the Latest Practicable Date, detailed rules and regulations regarding the conversion of existing private schools into For-profit Private Schools or Non-profit Private Schools have not been promulgated by Shandong provincial government authorities, there are uncertainties involved in interpreting and implementing the 2016 Decision, such as (i) specific procedures to proceed in order for a school to become a for-profit school or non-profit school; and (ii) specific conditions or requirement in order for non-profit schools to enjoy the same preferential tax treatment as public school. Consequently, the Company is unable to accurately evaluate the potential impact on its operations at this stage, such as tax liabilities of the Target College may be exposed to if the school sponsor(s) Target College chooses to registered the Target College as a For-profit Private School. As the detailed rules and regulations regarding the conversion of existing private schools into For-profit Private Schools or Non-profit Private Schools have not been promulgated by local governmental authorities, there can be no assurance that the conversion of the Target College into a For-profit Private School will not materially and adversely affect its business, financial condition and results of operations.

The Company does not have any insurance which covers the risks relating to the Structured Contracts and the transactions contemplated thereunder.

The insurance of the Group does not cover the risks relating to the Structured Contracts and the transactions contemplated thereunder. If any risk arises from the Structured Contracts in the future, such as those affecting the enforceability of the Structured Contracts and the relevant agreements for the transactions contemplated thereunder and the operation of Target Entities, the business and financial condition of the Group may be adversely affected. However, the Group will implement relevant internal control measures to reduce the operational risk.

Economic risks Longkou Zhimin bears as the primary beneficiary of the Target Entities, financial support to the Target Entities and potential exposure of the Group to losses.

As the primary beneficiary of the Target Entities, Longkou Zhimin will share both profit and loss of the Target Entities and bear economic risks which may arise from difficulties in the operation of the Target Entities' businesses. The Group may have to provide financial support in the event of financial difficulty of the Target Entities. Under these circumstances, the Group's financial results and financial position may be adversely affected by the worsening financial performance of the Target Entities and the need to provide financial support to it.

RISKS RELATING TO DOING 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 the Target College's 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 emphasising the utilisation of market forces in the development of the PRC economy in the past four 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.

The Group cannot predict whether the resulting changes will have any adverse effect on the Target College's current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development and the development of the education industry, 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.

Demand for private education and the Target College's education services and its business, financial condition and results of operations may be materially and adversely affected by the following factors:

- general economic development, 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 the control of the Group.

Furthermore, while COVID-19 has had a severe and negative impact on the Chinese and the global economy, whether this will lead to a prolonged downturn in the economy remains to be seen. Even before the outbreak of COVID-19, the global macro-economic environment was facing numerous challenges. The growth rate of the Chinese economy had been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that had been adopted by the central banks and financial authorities of some of the world's leading economies. There have also been concerns about the relationship between China and other countries. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to a variety of areas, including trade policies, national security, government regulations and tariffs some of which may impact the growth of the Chinese economy. In addition, economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy, or uncertainty in connection with the Sino-U.S. relationship may materially and adversely affect the Group's business, results of operations and financial condition.

Inflation in the PRC could negatively affect the Target College's profitability and growth.

The economy of the PRC has been experiencing significant growth, leading to inflation and increased labour costs. The overall economy of the PRC and the average wage in the PRC are expected to continue to grow. Future increases in the PRC's inflation and material increases in the cost of labour may materially and adversely affect the Target College's profitability and results of operations unless it is able to pass on these costs to the Target College's students by increasing tuition fees.

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

The Target College's 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 organisation and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. The Target College 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 the Target College. 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 the Target College. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management attention.

RISKS RELATING TO THIS CIRCULAR

The Company cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from the Industry Report that is contained in this circular.

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

The Company cannot, however, guarantee the quality or reliability of such facts and statistics. Although it has taken reasonable care to ensure that the facts and statistics presented are accurately extracted and reproduced from such publications and the Industry Report, no representation is given as to its accuracy. The Company therefore makes no representation as to the accuracy of such facts and statistics which may not be consistent with other information complied by other sources and prospective investors should not place undue reliance on any facts and statistics derived from public sources or the Industry Report contained in this circular.

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

This circular 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 circular should not be regarded as representations or warranties by the Company that the relevant 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, the Company does not intend to update or otherwise revise the forward-looking statements in this circular 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 circular are qualified by reference to this cautionary statement.

You should read the entire circular carefully, and the Company strongly cautions you not to place any reliance on any information contained in press articles or other media regarding us or the Acquisition.

There may be, subsequent to the date of this circular but prior to the Completion, press and media coverage regarding the Company and the Acquisition, which contained, among other things, certain financial information, projections, valuations and other forward-looking information about the Company and the Acquisition. The Company has not authorised 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. It makes 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 circular, the Company disclaims responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this circular only and should not rely on any other information.

You should rely solely upon the information contained in this circular and any formal announcements made by us in Hong Kong in making your investment decision regarding the Shares. The Company does 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 the Shares, the Acquisition or the Company. The Company makes 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 the Shares.

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE CONTRACTUAL ARRANGEMENTS

Background

As part of the Acquisition arrangement, Longkou Zhimin will enter into (i) the 1st set of Structured Contracts with, among others, Mr. Song, Nanshan Group and the Target College prior to Completion; and (ii) the 2nd set of Structured Contracts with, among others, the Registered Shareholder(s) (which is currently proposed to be Mr. Song), the Designated School Sponsor and the Target College, upon the establishment of the Designated School Sponsor and approval having been obtained for the Designated School Sponsor to become the sole school sponsor of the Target College, thereby superseding the 1st set of Structured Contracts.

Such Contractual Arrangements would allow the Group to gain effective control of the finance and operations of the Target College, and enjoy 70.0% of the economic benefits generated by the Target College, such that the financial results of the Target College could be consolidated to the consolidated financial statements of the Group. Please also refer to the section headed "Contractual Arrangements" in this circular for reasons for adopting the Contractual Arrangements and details of the principal terms of the Contractual Arrangements.

Listing Rules implications

As at the Latest Practicable Date, Ms. Sui is a controlling shareholder of the Company holding approximately 51.2% of the entire issued share capital of the Company through Union Capital. Mr. Song is the father-in-law of Ms. Sui, and is therefore a connected person of the Company at the issuer level. Further, as Nanshan Group is owned as to 51.0% by Nanshan Village Committee and 49.0% by Mr. Song Jianbo (who is the spouse of Ms. Sui) as at the Latest Practicable Date, Nanshan Group is also a connected person of the Company at the issuer level.

Since both Mr. Song and Nanshan Group will be or are expected to be parties to several agreements contemplated under the Structured Contracts, the entering into of the Structured Contracts and Contractual Arrangements, and the transactions contemplated thereunder will constitute continuing connected transactions of the Company, and are subject to announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Waiver sought

Notwithstanding the entering into of the Structured Contracts would constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs of the Company, for all transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Rules 14A.52 and 14A.53 of the Listing Rules, namely, (i) the requirement of limiting the term of the Structured Contracts to three years or less; and (ii) the requirement of setting a maximum aggregate annual value (that is, an annual cap) for the fees payable by the Target Entities to Longkou Zhimin under the Contractual Arrangements.

Accordingly, the Company has applied for a waiver from strict compliance with Rules 14A.52 and 14A.53 of the Listing Rules.

Reasons for the waiver application

The reasons for the waiver application are set out below:

(i) the Structured Contracts, taken as a whole, permit the results and financial operations of the Target College to be consolidated by the Group, resulting in 70.0% of the economic benefits generated by the Target College flowing to the Group. Further, it is only by virtue of the Structured Contracts that the Group would be able to gain effective control over the finance and operations of the Target College, and consolidate the financial results of the Target College to the consolidated financial statements of the Group. As such, the Structured Contracts primarily serve to benefit the Group and achieve the very purpose of the Acquisition;

(ii) it is in the interests of the Company to ensure that the Group will continue to receive and enjoy the said 70.0% economic benefits generated by the Target College without setting any annual cap which may otherwise limit the economic benefits received by the Group, via Longkou Zhimin, and/or expiration of the terms of the Contractual Arrangements which may otherwise prejudice the stability of control and lead to the Group losing control over the Target College;

(iii) it would be unduly burdensome and impracticable, and would add unnecessary administration costs to the Company, for all transactions contemplated under the Contractual Arrangements to be subject to strict compliance with the requirements set out under Rules 14A.52 and 14A.53 of the Listing Rules, namely (i) the requirement of limiting the term of the Structured Contracts to three years or less; and (ii) the requirement of setting a maximum aggregate annual value (that is, an annual cap) for the fees payable by the Target Entities to Longkou Zhimin under the Contractual Arrangements;

(iv) the 70.0% economic benefits generated by the Target College and entitled by the Group under the Acquisition will not be received by the school sponsor of the Target College nor the registered shareholder of such school sponsor (where applicable) under the Contractual Arrangements;

(v) based on the above, there are no genuine continuing connected transactions while the Structured Contracts merely constitute technical implications of continuing connected transactions owing to the typical structure of contractual arrangements; and

(vi) the Directors (including the independent non-executive directors) are of the view that the Structured Contracts are fundamental to the Group's legal structure and operation of the business of the Target College. Such transactions are entered into in the ordinary and usual course of business of the Group on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

On top of the above, Gram Capital, the Independent Financial Adviser, has also provided an opinion in relation to the Structured Contracts, the duration of which exceed three years, whether such duration is required for the nature of the Contractual Arrangements, and whether it is normal business practice for contracts of this type to be of such duration in accordance with Rule 14A.52 of the Listing Rules. After taking into account various factors as set out in the section headed "Letter from Gram Capital" in this circular, Gram Capital confirmed that the duration of the Structured Contracts, which is longer than three years, to be required and it is normal business practice for the Structured Contracts to be of such duration. Details of the opinion of Gram Capital Limited are set out in the section headed "Letter from Gram Capital" in this circular.

Grant of waiver

In view of the above, the Stock Exchange has granted, a waiver from strict compliance with Rules 14A.52 and 14A.53 of the Listing Rules, subject to the following conditions:

(i) **No change without independent non-executive Directors' approval:** save for any mandatory change required under or resulting from applicable laws and regulations, no changes to the Structured Contracts will be made without the approval of the independent non-executive Directors;

(ii) **No material changes without independent Shareholders' approval:** save for any mandatory change required under or resulting from applicable laws and regulations and save as described in (iv) below, the Company will comply with the requirements under the Listing Rules and obtain independent Shareholders' approval if there are material changes to the Structured Contracts, such as changes in the fees receivable by and the rights of the Group, as well as the obligations of Mr. Song, Nanshan Group, the Target Entities, and the Registered Shareholder(s) under the Structured Contracts;

(iii) **Economic benefits flexibility:** the Structured Contracts shall continue to enable the Group to receive the 70.0% economic benefits generated by the Target College through (i) the School Sponsor's Interest Call Option or the Equity Call Option, to the extent permitted under the PRC laws and regulations, to purchase 70.0% (or any part thereof) of the direct and/or indirect equity interest and/or school sponsor's interests (as the case may be) in the Target Entities at the lowest price permitted under the applicable PRC laws and regulations, (ii) the business structure under which 70.0% of the respective amounts of surplus from operations generated by the Target College (after deducting all necessary costs, expenses, taxes, losses from the previous years (if required by the law)), legally compulsory school development fund (if required by the law), and other statutory fees (if required by law), are substantially retained by the Group, such that no annual cap shall be set on the amount of service fees payable to Longkou Zhimin by the Target Entities under the 1st Exclusive Technical Service and Management Consultancy Agreement or the 2nd Exclusive Technical Service and Management Consultancy Agreement, and (iii) the Group's right to control the management and operation and 70.0% of the voting rights of the school sponsor of the Target College as held by its registered shareholder(s) (where applicable), which in turn has the right to control all of the voting rights of the Target College;

(iv) **Renewal and reproduction:** on the basis that the Structured Contracts provide an acceptable framework for the relationship between the Company and its subsidiaries in which the Company has direct shareholding, on the one hand, and the Target 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 the Target College or the Target Entities (as the case may be) which the 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 Structured Contracts. The directors, chief executives 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 the Target College or the Target Entities (as the case may be) which the Group may establish will, upon renewal and/or reproduction of the Structured Contracts, however be treated as connected persons of the Company, and transactions between these connected persons and the 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; and

(v) **Ongoing reporting and approvals:** the Company will disclose details relating to the Structured Contracts on an ongoing basis as follows:

(a) the Structured Contracts in place during each financial period will be disclosed in the Company's annual report in accordance with relevant provisions of the Listing Rules;

(b) the independent non-executive Directors will review the Structured Contracts annually and confirm in the 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 and that 70.0% of the economic benefits generated by the Target Entities have been substantially retained by the Group; (ii) no dividends or other distributions have been made by the Target Entities to the holders of their equity interests (where applicable) which are not otherwise subsequently assigned or transferred to the Group; and (iii) any new contracts entered into, renewed or reproduced between the Group and the Target Entities during the relevant financial period under paragraph 4.5(iv) above are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole;

(c) the Company's reporting accountants will carry out review procedures annually on the transactions carried out pursuant to the Structured Contracts and will provide a letter to the Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant Structured Contracts and that no dividends or other distributions have been made by the Target Entities to the holders of its equity interests (where applicable) which are not otherwise subsequently assigned or transferred to the Group;

(d) for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each of the member of the Target Entities will be treated as the Company's subsidiary, and at the same time, the directors, chief executives or substantial shareholders of each of the member of the Target Entities and their respective associates will be treated as connected persons of the Company (excluding for this purpose, the Target Entities), and transactions between these connected persons and the Group (including for this purpose, the Target Entities), other than those under the Structured Contracts, will be subject to the requirements under Chapter 14A of the Listing Rules; and

(e) each of the members of the Target Entities will undertake that, for so long as the Shares are listed on the Stock Exchange, each of the members of the Target Entities will provide the Group's management and the Company's auditors with full access to its relevant records for the purpose of the Company's auditors' review of the continuing connected transactions under the Structured Contracts.

By the time the 2nd set of Structured Contracts are entered into, the Company will issue an announcement to inform Shareholders and potential investors of the same, and submit to the Stock Exchange an updated legal opinion regarding the Structured Contracts should there be any changes in the relevant laws and regulations concerning the Contractual Arrangements.

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. The information has not been independently verified by the Group, the Target College, the Sole Financial Adviser, their respective affiliates or advisers, or any other parties involved in the Acquisition (other than Frost & Sullivan), and no representation is given as to its accuracy and the information shall not be relied upon in making, or refraining from making, any investment decision.

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 higher education market in the PRC, the private higher education market in the PRC, the private higher education market in Shandong Province, and other related economic data.

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary research, which involved discussing the status of the industry with leading industry participants and industry experts, and secondary research, which involved reviewing annual reports of companies, independent research reports and Frost & Sullivan's proprietary database. The Frost & Sullivan Report was compiled based on the following assumptions: (i) China's economy is expected to maintain steady growth in the forecast period; (ii) China's social, economic and political environment is likely to remain stable in the forecast period; and (iii) market drivers, such as increasing wealth and demand for higher education, increasing diversification and improved quality of education, better match of talent cultivation with market demand, support from central and local governments are likely to drive the PRC private higher education market. Projected total market size was obtained from historical data analysis plotted against macroeconomic data as well as specific related industry drivers.

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 45 offices worldwide with over 3,000 industry consultants, market research analysts and economists. We are contracted to pay a fee of HK$780,000 to Frost & Sullivan in connection with the preparation of the Frost & Sullivan Report. We have extracted certain information from the Frost & Sullivan Report in this section, as well as in the sections headed "Letter from the Board", "Risk Factors Relating to the Target College", "Business of the Target College" and elsewhere in this circular to provide our potential investors with a more comprehensive presentation of the industries in which the Target College operate.

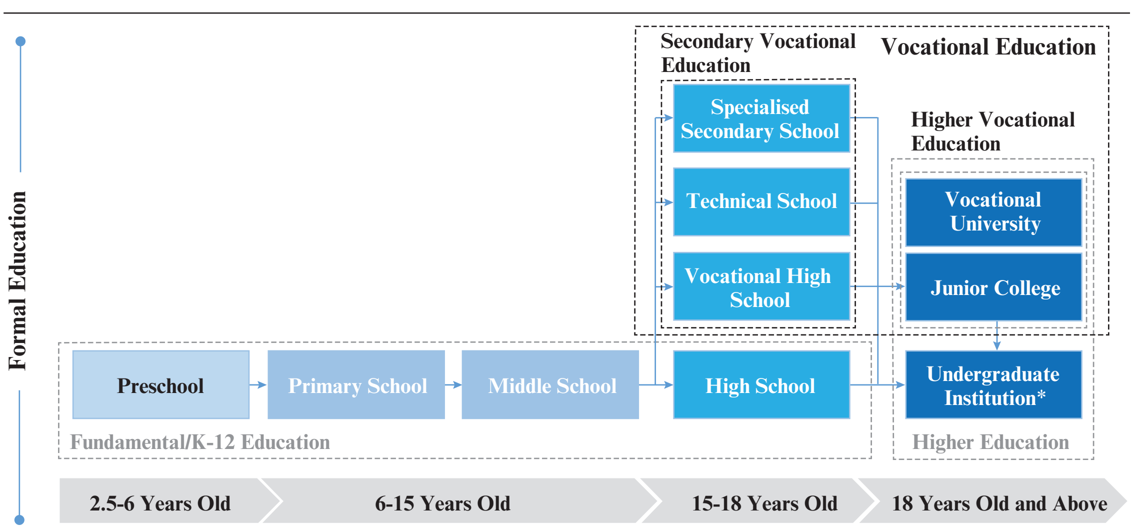
Based on and subject to the aforesaid, our Directors believe that the disclosure of future projections and industry data in this section is no biased or misleading. We believe that the sources of the information in this section are appropriate sources and we have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading. After taking reasonable care and based on Frost & Sullivan's views, our Directors confirm that there has been no adverse change in the market information since the date of the Frost & Sullivan Report up to the Latest Practicable Date, which may qualify, contradict or have an adverse impact on the information contained in this section.

OVERVIEW OF THE HIGHER EDUCATION MARKET IN THE PRC

Overview of the Higher Education Market in the PRC

According to the Frost & Sullivan Report, formal education in the PRC comprises fundamental education, which includes education from preschool to high school, secondary vocational education and higher education. Formal higher education can be provided by either undergraduate institution (本科院校) or junior college (專科院校) or vocational university (職業大學) granting different diplomas/degrees. The following diagram illustrates China's formal education system.

Illustration of China's Formal Education System



**Note:* university includes both regular university/college and independent college.

Source: Frost & Sullivan

According to the Frost & Sullivan Report, China's higher education experienced rapid development after the National College Entrance Exam was reinstated in the late 70s. The scale of total enrollment expanded rapidly, and higher education became more accessible to the general mass. Meanwhile, more majors were available, including those liberal arts majors that were previously overlooked. Moreover, higher education began to emphasise the cultivation of comprehensive quality by general education, and implemented the credit system of general education. During this phase, higher education developed rapidly, but gradually revealed a lack of diversification and responsiveness to employment market dynamics. A mismatch between talent cultivation and market demand was thus occurred. Entered into the 2010s, China's economy dived further into the phase of transformation and upgrade. China's higher education, which shoulder paramount responsibility of talent cultivation, also started with structural adjustment, with the objectives to better match talent cultivation with market demand and better equip higher education graduates with demanded knowledge and skill sets to the employment market.

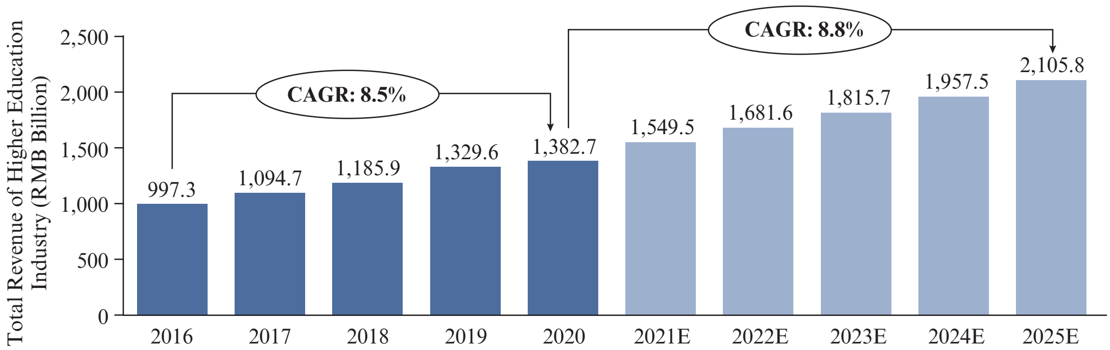
The Categories of the Higher Education Institutions in the PRC

According to the Frost & Sullivan Report, higher education institutions in the PRC comprise of private higher education institutions (which include private regular universities/colleges (民辦普通大學／學院), independent colleges (獨立學院), private junior colleges (民辦普通專科)) and public higher education institutions. Private universities/colleges are higher education institutions that are run by non-governmental institutions or individuals and provide college diploma, bachelor's degree or higher. Independent colleges are higher education institutions that are run by non-governmental institutions or individuals with the requisite of cooperating with public universities and colleges which offer undergraduate courses. Also, as a general practice, the cooperating public university or college is usually named as a school sponsor (舉辦者) for such independent college. Private junior colleges are higher education institutions that are run by non-governmental institutions or individuals and provide junior college diploma.

Market Size of the Higher Education Industry in the PRC

According to the Frost & Sullivan Report, the total revenue (經費總收入) of higher education industry is calculated by aggregating (i) the total PRC government public expenditure allocated to schools in the PRC higher education industry by the central government and local governments, (ii) funding provided to private schools by private investors, (iii) revenue generated from donations received and fundraising by schools, (iv) revenue generated by schools from teaching, research and other activities (such as tuition and school-run businesses), and (v) other educational funding or school revenue. While an increase in student enrollment will lead to a higher revenue from tuition fees, it is not the only factor affecting the total revenue of the higher education industry. The PRC government public expenditure contributes the majority of the total revenue of higher education industry. The higher education industry in China has experienced steady growth over the past few years. According to the National Bureau of Statistics and the MOE, China's total revenue of higher education industry increased from RMB997.3 billion in 2016 to RMB1,382.7 billion in 2020, representing a CAGR of approximately 8.5%. For the future several years from 2020 to 2025, China's total revenue of higher education industry is expected to increase to RMB2,105.8 billion in 2025, representing a CAGR of 8.8%.

Total Revenue of Higher Education Industry (China), 2016–2025E

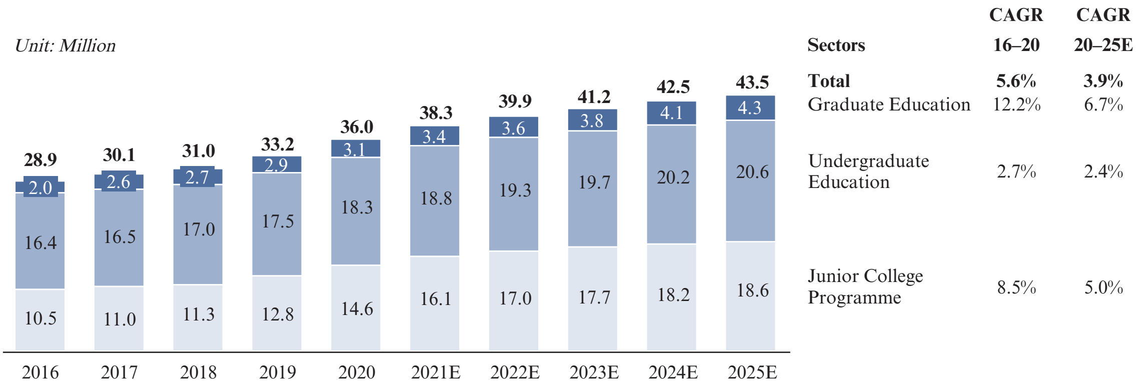


Source: MOE, Frost & Sullivan

Student Enrollments of the Higher Education Industry in the PRC

According to the Frost & Sullivan Report, the number of student enrollments in higher education steadily increased from 28.9 million in 2016 to 36.0 million in 2020, representing a CAGR of approximately 5.6%. For the forecast period from 2020 to 2025, the number of student enrollments in higher education is expected to increase from 36.0 million to 43.5 million, representing a CAGR of approximately 3.9%. Students enrolled in undergraduate programmes constitute the largest proportion and increased with a 2.7% CAGR from 2016 to 2020. Going forward, with the school-age population of age 18 to 21 in higher education start to recover in 2023, as well as the steady increase of enrollment of higher education, the number of student enrollments in this segment is expected to grow from 18.3 million in 2020 to 20.6 million in 2025, representing a CAGR of 2.4%. Undergraduate programmes account for the largest percentage of students enrolled in higher education in China, accounting for 18.3 million students, or 50.8% of the total student enrollment in higher education in 2020. In the past few years, due to the expansion of graduate and junior college enrollment, the growth rate of student enrollment in graduate programme and higher vocational education programme is higher than that of undergraduate programme. According to the 2020 Government Work Report and the Press Conference of the MOE in 15 May 2020, the expansion of graduate and junior college enrollment is expected to continue.

Total Number of Student Enrollments in Higher Education (China), 2016–2025E



Source: MOE, Frost & Sullivan

According to the Frost & Sullivan Report, the enrollment rate of school-age population of age 18 to 21 in higher education kept a rapid increasing trend due to the decrease of school-age population and increase of total student enrollments in higher education, as well as more education resource provided or approved by the government. From 2016 to 2020, the rate grew from 42.7% to 54.4%, representing a CAGR of 6.2%. For the forecast period, with increasing income and wealth and people's continually strengthened attention on education, enrollment rate of higher education is expected to continue rising and reach 64.7% in 2025. In 2020, only approximately 54.4% of the college-aged population in China are enrolled in higher education institutions, compared to an average of approximately 65.6% and 88.8% in France and U.S. respectively for the same period. China's higher education enrollment rate significantly lags behind major developed countries. Along with the continual economic development, demand for higher education is expected to continue increasing, supported by Chinese people's pursuit of higher degree level (學歷層次) based on the society's overall social, economic, and technological development along with Chinese people's increasing income and wealth and their increasing spending on education.

Market Analysis on Employment for Graduates of Higher Education Institutions in the PRC

According to the Frost & Sullivan Report, China's overall higher education graduate initial employment rate increased from 77.9% in 2016 to 78.2% in 2019. In 2020, the initial employment rate for higher education graduate reached approximately 77.0% in the PRC, even impacted by the COVID-19. The initial employment rate is expected to recover gradually starting in 2021 along with the alleviation of COVID-19 and continuous support from the government in the job market for graduate students. Employment rate, on one hand, reflects the demand and supply of fresh graduates of the job market. On the other hand, it also reflects the quality and cultivation of the graduates. In China, employment rate is one of the critical parameters to measure the quality of a university or junior college. The average monthly salary of graduates is an important indicator for evaluating the quality of employment. From 2016 to 2020, the average monthly salary of graduates in higher education increased from RMB3,988 to RMB4,862, representing a CAGR of 5.1%.

OVERVIEW OF THE PRIVATE HIGHER EDUCATION MARKET IN THE PRC

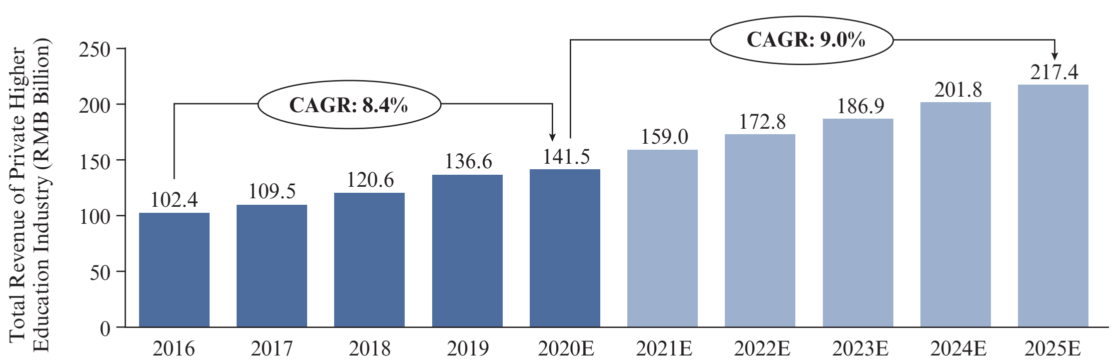
Overview

The private higher education industry in China has experienced rapid growth since the beginning of 1990s as it entered the phase of regulated development when the relevant government authorities made great effort in completing the regulative framework for private higher education, according to the Frost & Sullivan Report. Private higher education institutions are distinct from public higher education institutions mainly because public higher education institutions are under the direct administration of the central government or local governments in the PRC and their major source of funding is the public expenditure on education. According to the Frost & Sullivan Report, there were a total of 785 private higher education institutions in the PRC and 42 private higher education institutions in Shandong Province in 2020.

Market Size of the Private Higher Education Industry in the PRC

According to the Frost & Sullivan Report, the total revenue of private higher education industry has been calculated by aggregating total PRC government public expenditures allocated to schools in the PRC private higher education industry by the central government and local governments, funding provided to private schools by investors, revenues generated from donations to and fundraising by schools, revenues generated by schools from teaching, research and other activities (such as tuition and school-run businesses), and other educational funding or school revenues. From 2016 to 2020, total revenue of private higher education industry increased from RMB102.4 billion to RMB141.5 billion, representing a CAGR of 8.4%. Total revenue of private higher education industry is expected to increase to RMB217.4 billion in 2025, representing a CAGR of 9.0% from 2020 to 2025.

Total Revenue of Private Higher Education Industry (China), 2016–2025E

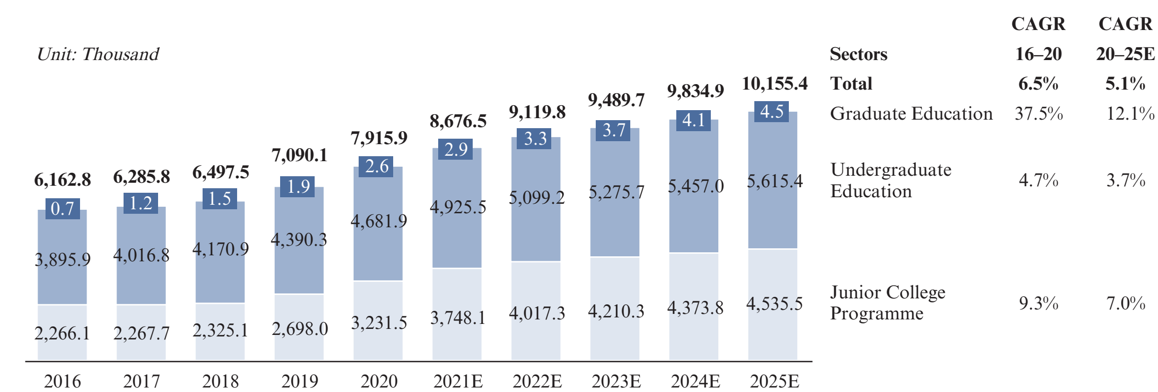


Source: MOE, Frost & Sullivan

Student Enrollments of the Private Higher Education Industry in the PRC

According to the Frost & Sullivan Report, in line with the increase in student enrollment in higher education, the total number of students enrolled in private higher education has also experienced steady growth. From 2016 to 2020, the number of student enrollments in private higher education increased from 6,162.8 thousand to 7,915.9 thousand, representing a CAGR of approximately 6.5%. For the future several years from 2020 to 2025, the number of student enrollments in higher education is expected to continue to increase from 7,915.9 thousand to 10,155.4 thousand, representing a CAGR of approximately 5.1%. Students enrolled in undergraduate programme accounted for approximately 59.1% in the total student enrollment in private higher education in 2020. Meanwhile, students enrolled in junior college programme lead the growth with a CAGR of 9.3% from 2016 to 2020. Going forward, the number of student enrollments in this segment is expected to grow from 3,231.5 thousand in 2020 to 4,535.5 thousand in 2025, representing a CAGR of 7.0%. Graduate enrollments in private higher education institutions only account for a small part. In 2020, graduate enrollments in private higher education institutions reached 2,556, only accounting for 0.1% of the total graduate enrollments. Private higher education institutions in China become more recognisable by society and more acceptable by students because of their successful track record of operations.

Total Number of Student Enrollments in Private Higher Education (China), 2016–2025



Source: MOE, Frost & Sullivan

The penetration rate of private higher education refers to the student enrollment in private undergraduate education and private junior college education divided by student enrollment in total undergraduate education and junior college education. The penetration rate of private higher education in China increased from 22.9% in 2016 to 24.1% in 2020. In the forecast period, the penetration rate of private higher education is likely to increase to 25.9% in 2025, due to the application-oriented talents' cultivation in private higher education.

Tuition Fees of the Private Higher Education Industry in the PRC

According to the Frost & Sullivan Report, average tuition fee of private higher education in China is much higher than that of public higher education. With the increasing per capita disposable income and the market regulation price of private higher education, the average annual tuition and miscellaneous fees for private higher education in China increased from RMB12,126 in 2016 to RMB14,000 in 2020 representing a CAGR of 3.7%, and is expected to increase to RMB16,130 in 2025, representing a CAGR of approximately 2.9% from 2020. On one hand, tuition fee is the main source of revenue for private higher education. Therefore, the revenue must sustain the development and the operation cost of the private higher education institutions. Public higher education, on the other hand, builds their operation on government appropriation and subsidy and tuition fee accounts for only a little part of their revenue. With the growing cost of operation, tuition fee of private higher education is increasing much faster than public higher education. The increase in the average tuition fee rates for higher education correlates to the increase in per capita GDP. As China's economy continues to develop and per capita GDP continues to increase, people are having greater willingness to pay for education, China's average tuition fee rates for higher education are expected to grow.

Market Drivers and Development Trends of the PRC Private Higher Education Industry

According to the Frost & Sullivan Report, the market drivers of private higher education industry in the PRC include:

- ***Increasing Wealth and Demand for Higher Education.*** With people's increasing income and improved physical living conditions, they are paying more attention to literature and cultural activities, and are more aware of the importance of education. Private education gained ground for development based on the gap between the rapidly increasing demand for higher education and the relatively limited public higher educational resources. Compared with major developed countries in Europe and North America, China's higher education enrollment rate is relatively lower. With continual economic development, Chinese households' increasing income and wealth, and strong government support for an overall increase in educational level of Chinese society, this rate is expected to continue increasing at a rapid pace. Nevertheless, the development of public educational resources is likely to uphold a relatively stable pace. Thus, private education is expected to fill in the gap and observe strong development.

- ***Growing Demand for Application-oriented Talents.*** With continuous economic development, the market is demanding more application-oriented talents in all aspect. While public higher education generally focusing on academic education and research, a significant lack of application-oriented workforce has been identified, reflecting the growing demand for private higher education, which put more weight on professional, applicable, and management education that bases on the general education.

- ***Enhancement of Private Education Quality and Increase in Diversification.*** With policy support and private education groups' ever-increasing capabilities in resource integration, the education quality of private higher education is continuously improving. The emergence and steady development of a batch of leading private universities with comparable resources and education quality as first-tier public universities signified the latest upgrade of China's private higher education market. Meanwhile, private education institutions are expanding their course profiles and increasing the diversity of majors in respond to government policies and demand for high-end talents in emerging industries, such as digital economy, big data, e-sports and management, etc. Such developments are expected to attract more people to consider private higher education and drive the growth of the market on a long-term basis.

- ***Government Support.*** The Chinese government has released a set of guidelines on promoting the sound development of private higher education, such as "Several Opinions of the State Council on Encouraging Social Power to Set up Education to Promote the Healthy Development of Private Education" (《國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見》), which introduces the innovative mechanisms of classification management system of for-profit and non-profit institutions and the implementation of tax incentives as a measure of financial support, which strongly supports the growth of the market.

According to the Frost & Sullivan Report, the private higher education industry in the PRC has experienced the following development trends:

- ***Better Match of Talent Cultivation and Market Demand.*** Better match of talent cultivation and market demand is one of the key trends. In recent years, the change of China's industrial structure has led to the change of the past demand for low-skilled labour to the high-skilled talents, so application-oriented and high-end talents will be more conducive to the employment and salary increase of students. In the future, application-oriented talents and innovative talents with strong practical skills are expected to constitute the major group demanded by China's employment market, and Chinese government is expected to further increase the support for the development of application-oriented higher education and relevant institutes.

- ***Consolidation Delivers Economies of Scale.*** China's higher education market is expected to observe increasing consolidation with more and more ownership transfer and merger and acquisition cases, driving by the continuously development of industry leading participants. This is primarily because growth through M&A is a major strategy for business growth in this industry. At the same time, consolidation delivers economies of scale, the schools under the Group can share and optimise educational resources and employment channels, so as to better control costs. Therefore, leading education groups will benefit from such consolidation trend by improving brand awareness and operational efficiency.

- ***Transformation from Independent Colleges to Private Universities.*** A large number of independent colleges emerged during the exploratory phase for China's private higher education, when private education operators severely lacked resources and experience and private higher education lacked awareness and approval from the general public. Nevertheless, supported by private education operators' increasing capability to integrate quality academic and capital resources, as well as their continuously improving education quality and recognition, the transformation from independent colleges to private or public universities is likely to be a key development trend. This trend is also supported by Chinese people's pursuit of higher degree level based on the society's overall social, economic, and technological development along with Chinese people's increasing income and wealth and their increasing spending on education.

- ***Diversification Brings Stronger Competitiveness.*** In the fierce competition, the diversification of higher education, including but not limited to educational concepts, disciplinary construction, programmes and courses, employment, etc. have become more important. Private higher education is generally more diversified and in line with the market demand in curricula offering, and are more application-oriented so as to cultivate talents eligible for the demand of economic and social development. On the other hand, private higher education providers that focused on the cultivation of soft skills such as leadership, teamwork, communication, innovation, learning agility, proactivity, and social and interpersonal compatibility may be more competitive given there's a broader and rising demand for soft skills in the workplace.

Entry Barriers in the PRC Private Higher Education Industry

According to the Frost & Sullivan Report, entry barriers in the PRC private higher education industry include:

- ***Approval of the Government.*** In China, the establishment of private colleges and universities must first be approved by the relevant governmental authorities. Central and local governments have promulgated laws and regulations that contain the requirements for the establishment of private colleges and universities. For example, registered capital of organisations as partners for the establishment of private independent colleges should not be below RMB50 million, the total assets of such organisations should exceed or equal to RMB300 million. 500 mu State-owned Land Use Certificate should be presented. The total value of teaching instruments and equipment should not be no less than 6 million, the library should have more than or equal to 80 thousand books. Meanwhile, for the establishment of an independent college, the phase for preparation is a requisite which generally takes 1 to 3 years during which no enrollment is allowed. To establish private higher education institutions other than independent colleges, more than five majors shall be offered, and more than 2,000, 5,000 and 8,000 students enrolled is required for a higher vocational institution, a college and a university, respectively. In addition, there are also requirements relating to teaching staff qualification, availability of land and the total number of library books. The examination and approval of private higher education institutions is also time-consuming due to the requisite routine and procedures. Meanwhile, the level of uncertainty for applicants is high as for the tight execution of relevant regulations by the governing bodies.

- ***Brand Awareness and Student Source.*** Brand awareness is especially essential for private colleges and universities, because it is always one of the top criteria for students and parents to choose schools. Students and their parents would like to choose a noted school with long operating history and well-established reputation. However, it needs time and years of experiences to establish brand awareness and reputation for new entrants in the market. Accordingly, it is hard for new entrants to enrol sufficient students.

- ***Sufficient Initial Capital and Durative Investment.*** At the beginning of the establishment of schools, a large amount of initial capital is needed to invest in campus construction, facilities and equipment, etc. Moreover, this kind of investment is durative rather than one-time. The players in the market must have sufficient capital and be able to afford the durative additional investment. Therefore, it sets up a high capital barrier for new entrants.

- ***Qualified Teachers.*** China's higher education, which shoulder paramount responsibility of talent cultivation, has started with a structural adjustment, with the objectives to better match talent cultivation with market demand and better equip higher education graduates with demanded knowledge and skill sets from the employment market. Such structural adjustment involves the building of teaching team that also better serves the purpose. As a result, teachers with practical industry experience and know-how are in great demand. For new entrants who are not able to access such resources, their teaching scheme would face challenge in catching up with the trend of market development.

- ***Land Resource and Relevant Facilities.*** To meet various requirements of teaching and extracurricular activities, schools always need plenty of land resource to build teaching constructions and establish relevant facilities. The land resource is usually authorised by the local governments or achieved by renting. With the tight supply of available land resource and the rising rental cost of current land resource, it is becoming more and more difficult to gain additional land resource.

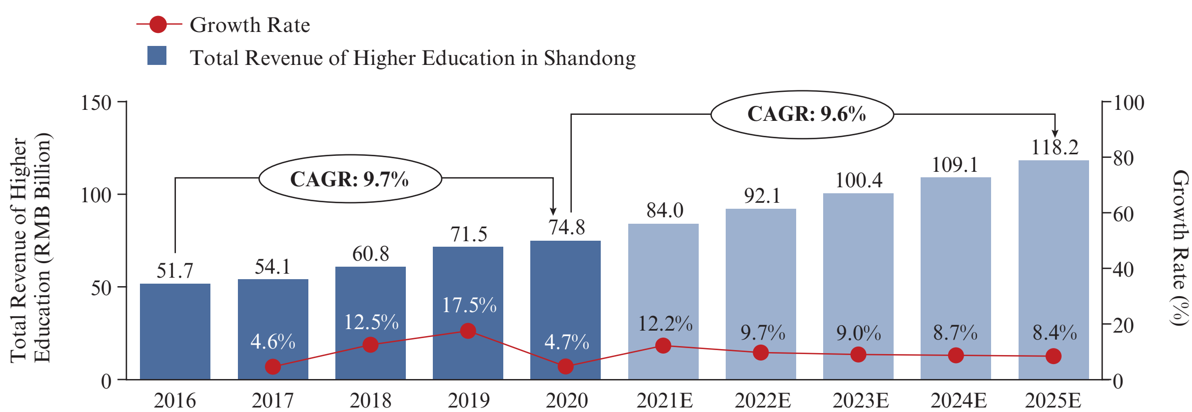
- ***Operational Experience and Management Capability.*** With a high level of competition in the market, operational experiences and management capability serves as a key entry barrier for new entrants. The operation of higher education institutions involves the management of a large amount of people with a complex set of roles, which foster a highly complex system. Without operational and management experience, new entrants could encounter great challenge in achieving larger scales and realise scale economy.

OVERVIEW OF THE PRIVATE HIGHER EDUCATION MARKET IN SHANDONG PROVINCE

Market Size of the Higher Education Industry in Shandong Province

The total revenue of higher education in Shandong Province has increased from RMB51.7 billion 2016 to RMB74.8 billion in 2020, representing a CAGR of 9.7%. The market size of higher education accounted for 5.4% of the overall higher education industry in China in terms of revenue in 2020. For the future years from 2020 to 2025, Shandong's total revenue of higher education is expected to maintain a steady growth and reach RMB118.2 billion in 2025, representing a CAGR of 9.6% in the same period.

Total Revenue of Higher Education Industry (Shandong Province), 2016–2025E

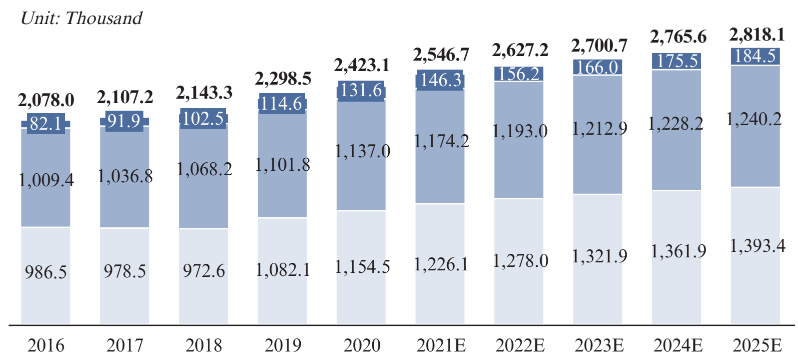


Source: MOE, Frost & Sullivan

Student Enrollments of the Higher Education Industry in Shandong Province

According to the Frost & Sullivan Report, from 2016 to 2020, the total student enrollments in higher education in Shandong Province has increased from 2,078.0 thousand to 2,423.1 thousand, representing a CAGR of 3.9%. In 2020, the total student enrollments in higher education in Shandong accounted for 6.7% of China. The student enrollment of higher education is expected to maintain a stable growth rate and reach 2,818.1 thousand by 2025, representing a CAGR of 3.1% from 2020.In the future, the student enrollments of junior college education will account for the largest part of the total student enrollments in higher education market in Shandong.

Total Number of Student Enrollments in Higher Education (Shandong Province), 2016–2025E



Sectors	CAGR 16–20	CAGR 20–25E
Total	**3.9%**	**3.1%**
Graduate Education	12.5%	7.0%
Undergraduate Education	3.0%	1.8%
Junior College Programme	4.0%	3.8%

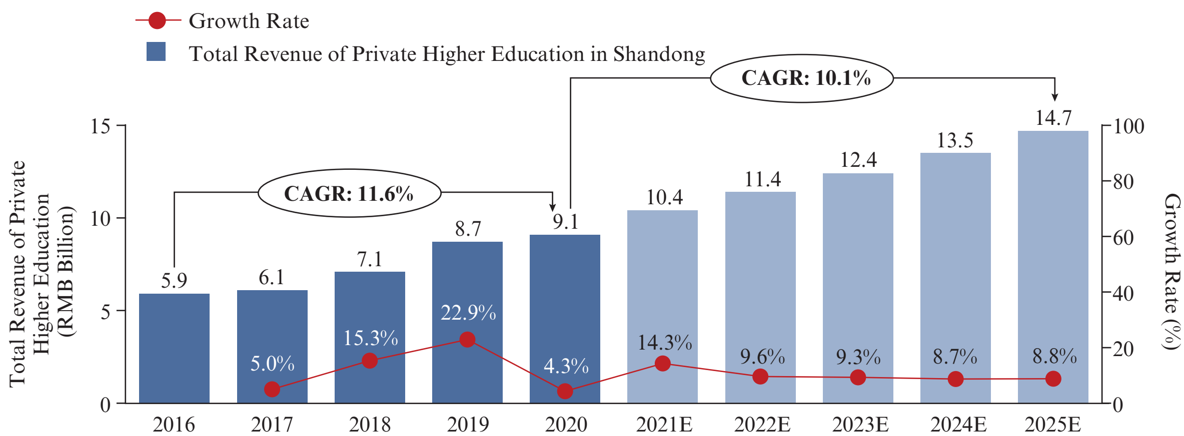
Source: MOE, Frost & Sullivan

Market Size of the Private Higher Education Industry in Shandong Province

The total revenue of private higher education in Shandong Province has been growing rapidly from 2016 to 2020, increased from RMB5.9 billion in 2016 to RMB9.1 billion in 2020, representing a CAGR of 11.6%. The market size of private higher education accounted for 12.1% of the overall higher education industry in Shandong in terms of revenue in 2020.

For the future years from 2020 to 2025, Shandong's total revenue of private higher education is expected to maintain a steady growth and reach RMB14.7 billion in 2025, representing a CAGR of 10.1% from 2020 to 2025. In addition to the increasing student enrollment, thanks to the increase in disposable income and the market pricing of non-profit private higher education regulation, the continuing growth of tuition and miscellaneous fees have contributed to the steady growth of total revenue of private higher education in Shandong.

Total Revenue of Private Higher Education Industry (Shandong Province), 2016–2025E

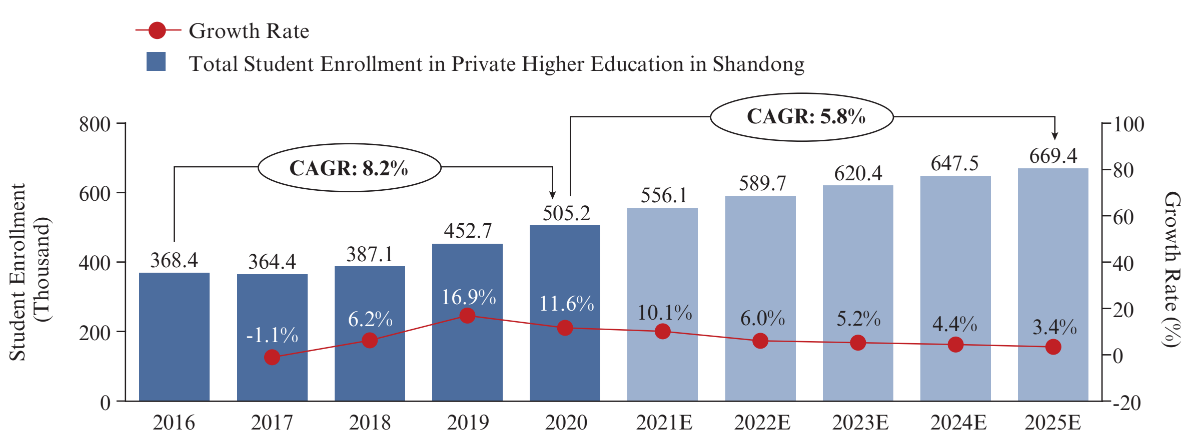


Source: MOE, Frost & Sullivan

Student Enrollments of the Private Higher Education Industry in Shandong Province

In 2020, there were 42 private higher educational institutions in Shandong Province, including 16 private regular universities, 10 independent colleges and 16 junior colleges, respectively with a total student enrollment of 505.2 thousand, occupying 20.8% of the total student enrollment in higher education in Shandong or 6.4% of the total student enrollment in private higher education in China. In the future, the student enrollment of private higher education is expected to increase from 505.2 thousand in 2020 to 669.4 thousand in 2025, representing a CAGR of 5.8%.

Total Number of Student Enrollments in Private Higher Education (Shandong Province), 2016–2025E



Source: MOE, Frost & Sullivan

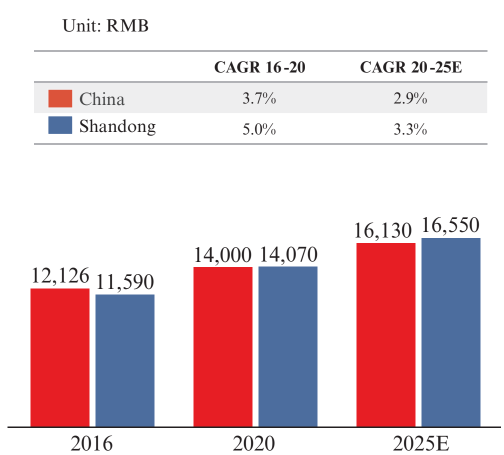
Tuition Fees and Major Costs involving the Private Higher Education Industry in Shandong Province

At present, the tuition fee of private higher education in Shandong implements the market regulated price mechanism. The approval of the adjustment application of tuition fee of each private higher educational institution are based on the operation cost of institutions, local economic level, etc.

According to the Frost & Sullivan Report, the average annual tuition fee of private higher education in Shandong increased from RMB11,590 in 2016 to RMB14,070 in 2020, which was higher than the national average in 2020. It is estimated that average annual tuition fee of private higher education in Shandong will increase to RMB16,550 in 2025, with a CAGR of 3.3% from 2020 to 2025.

Teacher salary is one of major costs of private higher education industry. According to the Frost & Sullivan Report, the average annual salary of teachers in education industry in Shandong Province increased from RMB81,165 in 2016 to RMB106,901 in 2020, representing a CAGR of 7.1% and it is expected the average annual salary of teach in Shandong Province will increase at a CAGR of 6.7% from 2020 to 2025.

Average Annual Tuition Fee of Private Higher Education (China vs. Shandong Province), 2016 vs. 2020 vs. 2025E



Source: Shandong Bureau of Statistics, Shandong Development and Reform Commission, Frost & Sullivan

Development Trends of the Private Higher Education Industry in Shandong Province

According to the Frost & Sullivan Report, the private higher education industry in Shandong has experienced the following development trends:

- ***Strong Demand for Private Education.*** Because of its large population base, the demand for education resources especially private education in Shandong is very strong. The penetration rate of private higher education in terms of student enrollments in Shandong Province is still low, with high potential to rise. In the future, with the increase of population and the gross enrollment rate of higher education in Shandong Province, the demand and supply gap of private higher education in Shandong Province will continue to increase. Therefore, the private higher education in Shandong Province has great potential.

- ***More Applied Majors and Institutions.*** At present, the public higher education institutions with the undergraduate level in Shandong Province are mainly positioned as research or teaching research. However, with the admission expansion of universities, graduates have to face the fierce competition in the job market. Also, the Chinese government has encouraged the development of application-oriented talents. Thus, an increasing number of parents and students prefer to choose application-oriented university. Compared to the public higher education institutions in Shandong, Shandong's private higher education institutions are mainly oriented by local economic development needs, thus, the professional setting and talent cultivation plan will be more in line with the society and serve the society.

Competitive Landscape of the Private Higher Education Industry in Shandong Province

In the 2020/2021 school year, there were 25 private undergraduate institutions in Shandong province. The private higher education market is concentrated in Shandong. The top five private undergraduate institutions together occupied 25.7% market share in terms of full-time student enrollment in the 2020/2021 school year.

The Target College ranked third in all private undergraduate institution in Shandong Province in terms of full-time student enrollment of 25.4 thousand, accounted for 5.0% market share in the 2020/2021 school year.

Ranking and Market Share of Private Undergraduate Institutions (Shandong), 2020/2021 School Year

Ranking	Private Undergraduate Institutions	Student Enrollments in the 2020/2021 School Year (Thousand)	Market Share (%)
1	School A	31.2	6.2%
2	School B	26.2	5.2%
3	**Our School**	**25.4**	**5.0%**
4	School C	23.6	4.7%
5	School D	23.4	4.6%
	Top five	**129.8**	**25.7%**
	Total	**505.2**	**100.0%**

Note:

1. The student enrollments of private higher education only refer to full-time students, exclude continuing education, adult education, non-degree education (technical diploma), etc.

2. The Group's data is provided by the Group's audit data.

3. School A refers to a non-listed private undergraduate institution in Shandong Province. It mainly offers undergraduate education services.

4. School B refers to a non-listed private undergraduate institution in Shandong Province. It mainly offers undergraduate education services.

5. School C refers to a non-listed private undergraduate institution in Shandong Province. It mainly offers undergraduate education services.

6. School D refers to a non-listed private undergraduate institution in Shandong Province. It mainly offers undergraduate education services.

Source: Frost & Sullivan

REGULATION ON FOREIGN INVESTMENT IN THE PRC

The Foreign Investment Law and its Implementation Regulations

The Foreign Investment Law (《中華人民共和國外商投資法》) and the Implementation Regulations on the Foreign Investment Law (《中華人民共和國外商投資法實施條例》) came into effect on 1 January 2020 and simultaneously replaced the Law on Sino-Foreign Equity joint ventures (《中華人民共和國中外合資經營企業法》), the Law on Sino-Foreign Contractual Joint Ventures (《中華人民共和國中外合作經營企業法》) and the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法》), to become the general law applicable for foreign investment within the PRC. For discrepancies between any provisions on foreign investment developed before 1 January 2020 and the Foreign Investment Law with its implementation regulations, the latter shall prevail.

The Foreign Investment Law specifically stipulates the following forms of investment activities as "foreign investments", namely, (a) establishment of a foreign-invested enterprise in the PRC by a Foreign Investor, either individually or collectively with any other investor, (b) obtaining shares, equities, assets interests or any other similar rights or interests of an enterprise in the PRC by a Foreign Investor, (c) investment in any new construction project in the PRC by a Foreign Investor, either individually or collectively with any other investor, and (d) investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council.

The Foreign Investment Law establishes the administration systems for foreign investment, which mainly consists of pre-establishment national treatment plus negative list, foreign investment information report system and security review system. The said systems, together with other administrative measures stipulated under the Foreign Investment Law, constitute the framework of foreign investment administration. The pre-establishment national treatment refers to granting to foreign investors and their investments, in the stage of investment access, the treatment no less favourable than that granted to domestic investors and their investments; the negative list refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State. The State will give national treatment to foreign investments outside the negative list.

On 30 December 2019, the Ministry of Commerce of the People's Republic of China (中華人民共和國商務部, the "**MOFCOM**") and the State Administration for Market Supervision (國家市場監督管理總局, the "**SAMR**") jointly issued the Measures for Reporting of Foreign Investment Information (《外商投資信息報告辦法》) (the "**Foreign Investment Information Measures**"), which came into effect on 1 January 2020 and replaced the Interim Administrative Measures for the Record-filing of the Establishment and Modification of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》). Beginning from 1 January 2020, when foreign investors carry out investment activities directly or indirectly in China, foreign investors or foreign-invested enterprises shall submit information through the Enterprise Registration System and the National Enterprise Credit Information Publicity System operated by the SAMR. Specifically, foreign investors or foreign-invested enterprises shall report their establishments, modifications and cancellations and file their annual reports in accordance with the Foreign Investment Information Measures. When a foreign-invested enterprise has completed filing of such reports, the relevant information will be passed by the competent market regulation department to the competent commercial department, so the reports do not need to be submitted separately.

Foreign Investment Industries Guidance and the Negative List

According to Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) which was promulgated by the State Council on 11 February 2002 and came into effect on 1 April 2002, projects with foreign investment shall fall into four categories, namely, encouraged, permitted, restricted and prohibited.

The Catalogue of Industries for Encouraging Foreign Investment (《鼓勵外商投資產業目錄》), which was promulgated on 27 December 2020 and came into effect on 27 January 2021, replaced the encouraged industries in the Guidance Catalogue. Listed projects are deemed to be permitted projects for foreign investment.

On 27 December 2021, the NDRC and MOFCOM promulgated the Special Administrative Measures for the Access of Foreign Investment (Negative List) (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》, the "**Negative List**") which took effect from 1 January 2022. The Negative List sets out the areas where foreign investment is prohibited and the areas where foreign investment is allowed only on certain conditions. Unless provided in other laws, foreign investment in areas not listed on the Negative List is permitted and treated equally with domestic investment.

Foreign Investment in Education in the PRC

Pursuant to the Negative List, the industry in which the Target College operates its business, i.e. higher education, is a restricted industry for foreign investors. Foreign investors are only allowed to invest in higher education in cooperation with a domestic party and the domestic party shall play a dominant role in the cooperation, which means the principal or other chief executive officer of the schools shall be a PRC national and the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution.

Sino-foreign cooperation in operating schools is specifically governed by the Sino-Foreign Regulation, which was promulgated by the State Council on 1 March 2003, became effective on 1 September 2003 and amended on 18 July 2013 and 2 March 2019, the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》), which became effective on 1 September 2003 and was last amended on 29 December 2018, and the Implementing Rules for the Regulations on Operating Sino-foreign Schools (《中華人民共和國中外合作辦學條例實施辦法》), which were issued by the Ministry of Education (中華人民共和國教育部, the "**MOE**") on 2 June 2004 and became effective on 1 July 2004.

The Sino-Foreign Regulation and its implementation regulations apply to the activities of educational institutions established in the PRC cooperatively by foreign educational institutions and Chinese educational institutions, the students of which are to be recruited primarily among the PRC citizens and encourage substantive cooperation between overseas educational organisations with relevant qualifications and experience in providing high-quality education and PRC educational organisations to jointly operate various types of schools in the PRC, with such cooperation in the areas of higher education and occupational education being encouraged. The overseas educational organisations must be a foreign educational institution with relevant qualifications and experience at the same level and in the same category of education. Sino-foreign cooperative schools are not permitted, however, to engage in compulsory education and military, police, political and other kinds of education that are of a special nature in the PRC. Any Sino-foreign cooperation school and cooperation programme shall be approved by relevant education authorities and obtain the Permit for Sino-foreign Cooperation in Operating School. A Sino-foreign cooperation school established without the above approval or permit may be banned by the relevant authorities, be ordered to refund the fees collected from its students and be subject to a fine of no more than RMB100,000, while a Sino-foreign cooperation programme established without such approval or permit may also be banned and be ordered to refund the fees collected from its students.

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

REGULATIONS ON PRIVATE EDUCATION IN THE PRC

Education Law of the PRC

On 18 March 1995, the National People's Congress (全國人民代表大會, the "**NPC**") of the PRC enacted the Education Law of the PRC (《中華人民共和國教育法》) (the "**Education Law**"), which was amended on 27 August 2009, 27 December 2015 and 29 April 2021. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising pre-school education, primary education, secondary education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. The Education Law stipulates that the government formulates plans for the development of education, and establishes and operates schools and other institutions of education. In principle, enterprises, social organisations and individuals are encouraged to establish and operate schools and other types of institution of education in accordance with PRC laws and regulations.

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

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

The Law for Promoting Private Education of the PRC became effective on 1 September 2003 and was amended on 29 June 2013, and further amended on 7 November 2016 and 29 December 2018, and the Implementation Rules for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》) became effective on 1 April 2004 and was amended on 7 April 2021 with an effective date of 1 September 2021.

Under these regulations, "private schools" are defined as schools established by social organisations or individuals using non-government funds. The establishment of a private school shall meet the local need for educational development and the requirements provided for by the Education Law and relevant laws and regulations, and the standards for the establishment of private schools shall conform to those for the establishment of public schools of the same grade and category. In addition, private schools providing academic qualifications education, pre-school education, education for self-study examinations and other education shall be subject to approval by the education authorities at or above the county level, while private schools engaging in occupational qualification training and occupational skill training shall be subject to approvals from the authorities in charge of labour and social welfare at or above the county level. A duly approved private school will be granted a Permit for Operating a Private School (民辦學校辦學許可證), and shall be registered with the Ministry of Civil Affairs of the PRC (中華人民共和國民政部, the "**MCA**") or its local counterparts as a privately run non-enterprise institution (民辦非企業單位). The Target College has obtained the Permit for Operating a Private School and has been registered with the relevant local counterpart of the MCA.

Under the above regulations, private schools have the same status as public schools, though private schools are prohibited from providing military, police, political and other kinds of education which are of a special nature. Public schools that provide compulsory education are not permitted to be converted into private schools. The operations of a private school are highly regulated. For example, a private school shall establish an executive council, a board of directors or any other form of the decision-making body and such decision-making body shall meet at least twice a year. Furthermore, the text books selected by private elementary schools and middle schools for teaching state fundamental classes should be approved in accordance with related laws and regulations, and the curriculum arrangements of the teaching courses should conform to the provisions of the MOE. Teachers employed by a private school shall have the qualifications specified for teachers and meet the conditions for the post as provided for in the Teachers Law of the PRC (《中華人民共和國教師法》) and other relevant laws and regulations, and there shall be a certain number of full-time teachers in a private school, and private schools offering academic qualifications education shall be equipped with full-time teachers in accordance with the relevant provisions of the state. The Target College provides a diploma or certificate to students. In line with relevant regulations, all of the courses required for PRC diplomas are taught by teachers that are certified by the relevant city education bureaus after undergoing systematic training or passing standardised tests in the subject they teach.

According to PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as "school sponsors" instead of "owners" or "shareholders". The economic substance of "school sponsorship" with respect to private schools is substantially similar to that of ownership with regard to legal, regulatory and tax matters. A sponsor of a private school has the obligation to make capital contributions to the school in a timely manner. The contributed capital can be in the form of tangible or non-tangible assets such as materials in kind, land use rights or intellectual property rights. The capital contributed by the sponsor becomes an asset of the school and the school has independent legal person status. In addition, the sponsor of a private school has the right to exercise ultimate control over the school by becoming the member of and controlling the composition of the school's decision making body. Specifically, the sponsor has control over the private school's constitutional documents and has the right to elect and replace the private school's decision making bodies, such as the school's board of directors, and therefore controls the private school's business and affairs.

Pursuant to the Implementation Rules for the Law for Promoting Private Education of the PRC which took effect from 1 September 2021, (i) a private school may enjoy preferential tax treatments formulated by the State, and a Non-profit Private School may enjoy the same tax policies as those enjoyed by a public school; (ii) private schools that provide compulsory education shall not conduct any transactions with their interested parties, and other private schools shall conduct transactions with their interested parties on an open, fair and impartial basis, which shall be conducted with reasonable pricing and through standardised decision-making process, without damaging the interests of the State, schools, teachers and students. Private schools shall establish information disclosure mechanisms for the transactions with their interested parties. The relevant government authorities, such as the education department, the human resources and social security departments and the financial department, shall strengthen the supervision of the execution of the agreements between Non-Profit Private Schools and their interested parties, and shall review connected transactions annually; (iii) the registered capital of a private school shall be paid in full when it is formally established and shall be compatible with its type, level and scale; and (iv) any social organisations or individuals shall not control private schools that provide compulsory education or Non-profit Private Schools that provide preschool education through mergers or structure contracts.

Several Opinions of the State Council on Encouraging Social Groups to Engage in Education and Promote the Healthy Development of Private Education

According to the Several Opinions of the State Council on Encouraging Social Groups to Engage in Education and Promote the Healthy Development of Private Education (《國務院關於鼓勵社會力量興辦教育促進民辦教育健康發展的若干意見》), which was issued by the State Council of the PRC on 29 December 2016, innovative institutional mechanisms shall be implemented in the field of private education, which include but are not limited to: (i) classification registration and management shall be applicable to private schools and the sponsors of private schools shall, at their own discretion, choose to run Non-profit Private Schools or For-profit Private Schools; (ii) differential support policies shall be applicable to private schools. The people's governments at all levels are responsible for formulating and perfecting support policies for Non-profit Private Schools including but not limited to government subsidies, government procurement services, fund incentives, donation incentives and land allocation. At the same time, the people's governments at all levels may support the development of for-profit schools by ways including but not limited to government procurement services and preferential tax treatments in accordance with the economic and social development and the request for public service; (iii) broaden the financing channels for private schools, and encourage and attract private funds to enter into the field of private education. Financial institutions are encouraged to provide loans to private schools with the pledge of the schools' operating income in the future or intellectual property rights, while individual persons or entities are encouraged to make donation to Non-profit Private Schools.

Local people's governments at various levels should perfect support policies for private schools, which include but are not limited to: (i) implementing the same subsidy policies for private schools, such as that students of private schools and public schools shall enjoy student loans, scholarships and other state funding policies equally; (ii) implementing incentive policies regarding taxes and fees for private schools. Private schools shall enjoy preferential tax treatments in accordance with national regulations while Non-profit Private Schools enjoy the same tax preferential treatments as public schools. Private schools shall be entitled to the same price policies for use of electricity, water, gas and heat as public schools; and (iii) implementing differential land supply policies. Non-profit Private Schools enjoy the same land policy as public schools and may get land by way of land allocation; For-profit Private Schools shall get land in accordance with national regulations and policies.

Implementing Measures on Classification Registration of Private Schools

According to the Implementing Measures on Classification Registration of Private Schools (《民辦學校分類登記實施細則》) (the "**Classification Registration Rules**"), which was issued jointly by the MOE, the Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部), the Ministry of Civil Affairs (中華人民共和國民政部), the State Commission Office of Public Sectors Reform (中央機構編製委員會辦公室) and the State Administration for Industry and Commerce (國家工商行政管理總局, the "**SAIC**", currently known as the SAMR) on 30 December 2016, with effect from the same day, the establishment of a private school is subject to approval. Private Schools approved to be established shall apply for the registration certificate or business licence in accordance with the classification registration regulations after they are granted with the licence for school operation by the competent governmental authorities.

The Classification Registration Rules are also applicable to private schools which were established before the promulgation of the Revisions of the Law for Promoting Private Education of the PRC on 7 November 2016 (the "**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 its school operation, and complete the new registration formalities. If an Existing Private School chooses to register as a For-profit Private School, it shall conduct financial settlement, clarify the ownership of the property rights of the relevant assets such as land, schools buildings and net balance with the authentication of the relevant governmental authorities, pay relevant taxes and expenses, obtain new school operation permit, and re-register with the relevant governmental authorities to continue their school operation.

On 30 May 2018, the People's Government of Shandong Province promulgated the Opinions of the People' s Government of Shandong Province on Encouraging the Development of Education by Social Forces and Promoting the Healthy and Orderly Development of Private Education (《山東省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) (the "**Shandong Opinions**"). According to the Shandong Opinions, classification registration of private schools (including other private educational institutions) shall be implemented. Private schools approved be established before 1 September 2017 shall, in principle, complete converting into for-profit or non-profit schools before 1 September 2022. Furthermore, the Education Authority, the Department of Human Resources and Social Security of Shandong Province, the Department of Civil Affairs of Shandong Province, the Office of the Organisation Committee of Shandong Province and the Administration for Market Regulation of Shandong Province jointly issued the Implementation Measures of Classified Approval and Registration of Private Schools in Shandong Province (《山東省民辦學校分類審批登記實施辦法》) (the "**Shandong Measures**") on 12 July 2019, which includes the requirements and procedures of approval of establishment, classified registration, change of registered events, termination and cancellation of registration, classified registration of existing private schools. However, both the Shandong Opinions and the Shandong Measures set out no detailed procedures for the election and the registration of current private schools.

Implementing Measures for the Supervision and Administration of For-profit Private Schools

The Implementing Measures for the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》) was issued jointly by the MOE, the Ministry of Human Resources and Social Security and the SAIC on 30 December 2016, which detailed the supervision and administration of For-profit Private Schools regarding the establishment of schools, the organisation structure, the education and teaching activities, finance and assets, the information publication, the change and termination of schools and the penalties for violation.

According to the Notice of the SAIC and the MOE on the Registration and Administration of the Name of For-profit Private Schools (《工商總局、教育部關於營利性民辦學校名稱登記管理有關工作的通知》), which was issued jointly by the MOE and the SAIC on 31 August 2017 and became effective on 1 September 2017, the private school shall be registered as a limited liability company or a joint stock limited company according to the Company Law of the PRC (《中華人民共和國公司法》) and the Law for Promoting Private Education and its name shall comply with relevant laws and regulations on company registration and education.

Regulations on Higher Education

According to the Higher Education Law of the PRC (《中華人民共和國高等教育法》), which was promulgated on 29 August 1998 and was then amended on 27 December 2015 and 29 December 2018, higher education includes education for academic qualifications and education for non-academic qualifications. Higher education institutions are universities, independent colleges, and specialised higher education schools, including higher vocational schools and higher education schools for adults. The establishment of higher education institutions for undergraduate education and above shall be subject to examination and approval by the administrative department for education under the State Council, the ones for junior college education shall be subject to examination and approval by the people's governments of provinces, autonomous regions and municipalities directly under the Central Government. The establishment of other higher education organisations shall be subject to examination and approval by the administrative department for education under the people's governments of provinces, autonomous regions and municipalities directly under the Central Government. Higher education for academic qualifications includes junior college education, undergraduate education and graduate education. Higher education shall be conducted by higher education institutions and other higher education organisations. Higher education institutions shall be established in accordance with State plans for the development of higher education and in keeping with the interests of the State and the public. Universities and independent colleges shall mainly conduct undergraduate education and education at a higher level. Junior college education schools shall conduct junior college education. With the approval of the administrative department for education under the State Council, research institutes may undertake the graduate programmes. Other higher education organisations shall conduct higher education for non-academic qualifications. Universities and independent colleges shall, in addition, have a stronger staff for teaching and research, a higher level of teaching and research, as well as a necessary size of the student body, in order that they can offer undergraduate education and education at a higher level. Moreover, universities shall offer at least three branches of learning designated by the State as the main courses.

Further, the MOE issued the Several Provisions on the Administration of Non-state-operated Colleges and Universities (《民辦高等學校辦學管理若干規定》) on 3 February 2007, which was amended on 10 November 2015, pursuant to which the conditions for running non-state-operated colleges and universities shall conform to the establishment standards as prescribed by the state and the basic indicators for running regular colleges and universities. The investors of a non-state-operated college or university shall, under the Law for Promoting Private Education of the PRC and the Regulation for the Implementation thereof, timely and fully perform the capital contribution obligation. No non-state-operated college or university may engage in educational and teaching activities in any place other than that as specified in the licence for running non-state- operated education, or establish any branch, or rent or lend to others its licence for running non-state-operated education. The president of a non-state-operated college or university shall satisfy the appointment requirements of the State and shall have 10 or more years of experience of administration of higher education and shall not be over 70 years old. The term of office of a president shall be 4 years in principle.

Regulations on Vocational Education

According to the Vocational Education Law of the PRC (《中華人民共和國職業教育法》), which was promulgated on 15 May 1996 and became effective on 1 September 1996, vocational education includes elementary, secondary and higher vocational education. The elementary and secondary vocational school education shall be provided by elementary and secondary vocational schools. The higher vocational education shall be provided, where necessary and where conditions permit, either by higher vocational schools or by regular institutions of higher education. On 20 April 2022, the revised Vocational Education Law was adopted by the 34th meeting of the Standing Committee of the 13th National People's Congress and became effective on 1 May 2022. According to the revised edition, vocational education which includes secondary school education and higher vocational education takes equal important position as general education. Secondary school education will be implemented by secondary vocational schools (including technical schools) at the senior secondary education level. Higher vocational education will be implemented by higher vocational schools and general higher education schools at the junior college, undergraduate degree or above education level and qualified technicians' colleges should be included in the system of higher education schools. The revised edition further puts forward (i) encouraging general primary, secondary and higher schools to add vocational education to the teaching contents if need be; (ii) supporting enterprises and other social forces to establish vocational schools and vocational training institutions under the PRC laws. In addition, vocational schools and vocational training institutions shall pay attention to integration of industries into education and implement school-enterprise cooperation.

On 12 October 2021, the General Office of the Chinese Communist Party Central Committee and the General Office of the State Council issued the Opinion on Promoting the High-Quality Development of Modern Vocational Education (《關於推動現代職業教育高質量發展的意見》) (the "**Opinion**"), and issued a notice requiring serious implementation. The Opinion put forward (i) speeding up the establishment of the "vocational education college entrance examination" system, promoting the vertical connection of vocational education at different levels, and strengthening the penetration and integration of general education and vocational education at all levels; (ii) encouraging schools to set up more scarce and market-oriented majors under major national development strategies; (iii) improving the diversified school running pattern, encouraging listed companies and industry leading enterprises to establish vocational education, encouraging all kinds of enterprises to participate in the establishment of vocational education according to law, and enriching the school running forms of vocational schools; and (iv) realising the innovation of school-enterprise cooperation mechanism, deepening the reform of education and teaching, building the brand of vocational education with Chinese characteristics, and exploring the international development mode of "Chinese + vocational skills". The Opinion also stipulates that governments at all levels should coordinate the scale, structure and level of vocational education and human resources development, and include the integration of production and education into the economic and social development plan. Local governments should take the promotion of enterprises' participation in school-enterprise cooperation and the cultivation of technical and skilled talents as the important contents of industrial development plans, industrial incentive policies and rural revitalization plans, to provide "financial + fiscal + land + credit" incentives to industry-education integrated enterprises, and implement the relevant tax and fee policies in accordance with the regulations.

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

The Interim Measures for the Management of the Collection of Private Education Fees (《民辦教育收費管理暫行辦法》) (the "**Private Education Fees Collection Measures**") was promulgated by the NDRC, the MOE and the Ministry of Labour and Social Security (currently known as the Ministry of Human Resources and Social Security) on 2 March 2005 and took effect from 2 April 2005. According to the Private Education Fees Collection Measures and the Implementation Rules for the Law for Promoting Private Education of the PRC, the types and amounts of fees charged by a private school providing academic qualifications education shall be examined by education authorities or the labour and social welfare authorities and approved by the governmental pricing authority, and the school shall obtain the fee charge permit. A private school that provides non-academic qualifications education shall file its pricing information with the governmental pricing authority and publicly disclose such information. If a school raises its tuition levels without obtaining the proper approval or making the relevant filing with the relevant government pricing authorities, the school would be required to return the additional tuition fees obtained through the raise and become liable for compensation of any losses caused to the students in accordance with relevant PRC laws. On 12 March 2020, the NDRC abolished the Private Education Fees Collection Measures.

Notice regarding Cancellation of the Fee Charge Permit System and Strengthening the Supervision in Process and Afterwards

According to the Notice regarding Cancellation of the Fee Charge Permit System and Strengthening the Supervision in Process and Afterwards (《國家發展改革委、財政部關於取消收費許可證制度加強事中事後監管的通知》), which was issued jointly by the NDRC and the Ministry of Finance (中華人民共和國財政部，the "**MOF**") on 9 January 2015, the fee charge permit system was cancelled nationwide from 1 January 2016.

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

Opinions on Further Strengthening and Standardising the Management of Education Fees

Pursuant to the Opinions on Further Strengthening and Standardising the Management of Education Fees (《關於進一步加強和規範教育收費管理的意見》), which was promulgated on 17 August 2020, the specific methods for Non-profit Private Schools' fee collecting policies shall be formulated by the provincial People's government, while the fees of For-profit Private Schools shall be regulated by the market and determined by the schools themselves. For private schools established before 7 November 2016, their fee charging policies shall be regulated in the same way as Non-profit Private Schools before the relevant procedures for classification registration are completed. In addition, it is strictly forbidden for Non-profit Private School sponsors and non-profit Sino-foreign cooperative school sponsors to obtain proceeds from school operating income, distribute school surplus (surplus property), or transfer school operating income through related-party transactions or related parties.

Administrative Measures for Food Operation Licensing

According to the Administrative Measures for Food Operation Licensing (《食品經營許可管理辦法》), which was issued by the China Food and Drug Administration (國家食品藥品監督管理總局, currently merged into the SAMR) on 31 August 2015 and newly amended on 17 November 2017, a food operation licence (食品經營許可證) shall be obtained to engage in food selling and catering services.

Regulations on the Management of Food Safety, Nutrition and Health Protection of School

According to the Regulations on the Management of Food Safety, Nutrition and Health of School (《學校食品安全與營養健康管理規定》) promulgated by the MOE, SAMR and the National Health Commission on 20 February 2019 and came into force on 1 April 2019, the supply of foods by schools to students, teachers and employees through canteens or by ordering food from off-site providers is regulated. Schools shall attach great importance to food safety and the principal of a school is responsible for the food safety. The school canteens shall obtain the licence for food operations.

Pursuant to the Food Safety Law of the PRC (《中華人民共和國食品安全法》), which was last amended on 29 April 2021, collective canteens of schools shall obtain licences in accordance with the laws and strictly abide by the laws, regulations and food safety standards. Schools and kindergartens should only order meals from off-site providers that have obtained the relevant food production licences and should conduct regular inspections on the meals provided.

According to the Regulation on Sanitary Work of Schools (《學校衛生工作條例》), which was promulgated on 4 June 1990 and became effective on 4 June 1990, schools shall carry out sanitary work. The main tasks of the sanitary work include monitoring the health condition of students, carrying out health education among students, helping students to develop good health habits, improving the health environment and health conditions for teachers, and strengthening prevention and treatment of infectious disease and common diseases among students.

LEGAL REGULATIONS OVER REAL PROPERTY IN THE PRC

PRC Civil Code

On 28 May 2020, the PRC Civil Code (《中華人民共和國民法典》) was approved by the NPC and took effect on 1 January 2021.

The Civil Code provides that non-profit legal persons established for public welfare such as schools, kindergartens and medical institutions shall not mortgage their educational facilities, health care facilities and other public welfare facilities.

According to the Civil Code, transferable fund units and equity, property right in intellectual property rights of transferable exclusive trademark rights, patent rights, copyrights, etc., existing and future accounts receivable and other property rights that can be pledged as stipulated by any law or administrative regulation may be pledged.

The Interpretation of the Supreme People's Court on the Application of the Civil Code of the People's Republic of China concerning the Guarantee System (最高人民法院關於適用《中華人民共和國民法典》有關擔保制度的解釋), which took effect on 1 January 2021, reaffirms the above principles, with corresponding exceptions provided in Article 6 of such interpretation: Where a non-profit school, kindergarten, medical institution or institution for the aged provides guaranty, the people's court shall affirm that the guaranty contract is invalid, except in any of the following circumstances: (1) when purchasing or leasing educational facilities, medical and health facilities, elderly service facilities or other public welfare facilities by means of financial leasing, the seller or lessee retains ownership of the public welfare facilities for the purpose of realising the guaranteed price or rent; or (2) establishing real right for security in the form of realty, chattel or property rights other than educational facilities, medical and health facilities, elderly service facilities and other public welfare facilities.

LEGAL REGULATIONS OVER INTELLECTUAL PROPERTY IN THE PRC

Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》, the "**Copyright Law**"), which was last amended on 11 November 2020 with the effective date of 1 June 2021, copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.

Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》, the "**Trademark Law**"), which was last revised on 23 April 2019 and came into effect on 1 November 2019, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark will constitute an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》, the "**Patent Law**"), which was last revised on 17 October 2020 with the effective date of 1 June 2021, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is decided, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》), which was promulgated on 24 August 2017 and came into effect on 1 November 2017, the Ministry of Industry and Information Technology of the PRC (the "**MIIT**") is the major regulatory body responsible for the administration of the PRC internet domain names. The principle of "first come, first serve" is followed for the domain name registration service. In November 2017, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Regulating the Use of Domain Names in Providing Internet-based Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》), which became effective on 1 January 2018. Pursuant to the notice, the domain name used by an internet-based information service provider in providing internet-based information services must be registered and owned by such provider in accordance with the law. If the internet-based information service provider is an entity, the domain name registrant must be the entity (or any of the entity's shareholders), or the entity's principal or senior manager.

LEGAL REGULATIONS OVER LABOUR PROTECTION IN THE PRC

According to the Labour Law of the PRC (Order No. 28 of the President) (《中華人民共和國勞動法》， the "**Labour Law**"), which was promulgated by the Standing Committee of the National People's Congress on 5 July 1994, came into effect on 1 January 1995 and was amended on 27 August 2009 and 29 December 2018, an employer shall develop and improve its rules and regulations to safeguard the rights of its workers. An employer shall develop and improve its labour safety and health system, stringently implement national protocols and standards on labour safety and health, conduct labour safety and health education for workers, guard against labour accidents and reduce occupational hazards. Labour safety and health facilities must comply with relevant national standards. An employer must provide workers with the necessary labour protection gear that complies with labour safety and health conditions stipulated under national regulations, as well as provide regular health checks for workers that are engaged in operations with occupational hazards. Labors engaged in special operations shall have received specialised training and obtained the pertinent qualifications. An employer shall develop a vocational training system. Vocational training funds shall be set aside and used in accordance with national regulations and vocational training for workers shall be carried out systematically based on the actual conditions of the company.

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》, the "**Labour Contract Law**"), which was promulgated by the NPC on 29 June 2007, came into effect on 1 January 2008, and was amended on 28 December 2012 and came into effect on 1 July 2013, and the Implementation Regulations on Labour Contract Law (Order No. 535 of the State Council) (《勞動合同法實施條例》), which was promulgated on 18 September 2008 and became effective since the same day, regulate both parties through a labour contract, namely the employer and the employee, and contain specific provisions involving the terms of the labour contract. It is stipulated under the Labour Contract Law and the Implementation Regulations on Labour Contract Law that a labour contract must be made in writing. An employer and an employee may enter into a fixed-term labour contract, an un-fixed term labour contract, or a labour contract that concludes upon the completion of certain work assignments, after reaching agreement upon due negotiations. An employer may legally terminate a labour contract and dismiss its employees after reaching agreement upon due negotiations with the employee or by fulfilling the statutory conditions. Labour contracts concluded prior to the enactment of the Labour Law and subsisting within the validity period thereof shall continue to be honoured. With respect to a circumstance where a labour relationship has already been established but no formal contract has been made, a written labour contract shall be entered into within one month from the effective date of the Labour Contract Law.

According to the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Regulations on Work Injury Insurance (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Trial Measures on Employee Maternity Insurance of Enterprises (《企業職工生育保險試行辦法》), enterprises in the PRC shall provide benefit plans for their employees, which include basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance. An enterprise must provide social insurance by processing social insurance registration with local social insurance agencies, and shall pay or withhold relevant social insurance premiums for or on behalf of employees. The Law on Social Insurance of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and amended on 29 December 2018, has consolidated pertinent provisions for basic pension insurance, unemployment insurance, maternity insurance, work injury insurance and basic medical insurance, and has elaborated in detail the legal obligations and liabilities of employers who do not comply with relevant laws and regulations on social insurance.

According to the Interim Measures for Participation in the Social Insurance System by Foreigners Working within the Territory of China (《在中國境內就業的外國人參加社會保險暫行辦法》), which was promulgated by the Ministry of Human Resources and Social Security on 6 September 2011 and became effective on 15 October 2011, employers who employ foreigners shall participate in the basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, and maternity leave insurance in accordance with the law, with the social insurance premiums to be contributed respectively by the employers and foreigner employees as required. In accordance with such interim measures, the social insurance administrative agencies shall exercise their right to supervise and exam the legal compliance of foreign employees and employers and the employers who do not pay social insurance premium in conformity with the laws shall be subject to the administrative provisions provided in the Social Insurance Law and the relevant regulations and rules mentioned above.

According to the Regulations on the Administration of Housing Provident Fund (Order No. 262 of the State Council) (《住房公積金管理條例》), which was promulgated and became effective on 3 April 1999, and was amended on 24 March 2002 and 24 March 2019, housing provident fund contributions by an individual employee and housing provident fund contributions by his or her employer shall belong to the individual employee.

The employer shall timely pay up and deposit housing provident fund contributions in full amount and late or insufficient payments shall be prohibited. The employer shall process housing provident fund payment and deposit registrations with the housing provident fund administration centre. With respect to companies who violate the above regulations and fail to process housing provident fund payment and deposit registrations or open housing provident fund accounts for their employees, such companies shall be ordered by the housing provident fund administration centre to complete such procedures within a designated period. Those who fail to process their registrations within the designated period shall be subject to a fine ranging from RMB10,000 to RMB50,000. When companies breach these regulations and fail to pay up housing provident fund contributions in full amount as due, the housing provident fund administration centre shall order such companies to pay up within a designated period, and may further apply to the People's Court for mandatory enforcement against those who still fail to comply after the expiry of such period.

LEGAL REGULATIONS OVER TAX IN THE PRC

Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》, the "**EIT Law**"), which was promulgated on 16 March 2007 and last amended on 29 December 2018 and became effective on the same date, and the Implementation Rules to the EIT Law (《中華人民共和國企業所得稅法實施條例》), which was promulgated on 6 December 2007 and amended on 23 April 2019 by the State Council, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise shall pay enterprise income tax on its income deriving from both inside and outside China at the rate of enterprise income tax of 25%. A non-resident enterprise that has an establishment or place of business in the PRC shall pay enterprise income tax on its income deriving from inside China and obtained by such establishment or place of business, and on its income which derives from outside China but has actual relationship with such establishment or place of business, at the rate of enterprise income tax of 25%. A non-resident enterprise that does not have an establishment or place of business in China, or has an establishment or place of business in China but the income has no actual relationship with such establishment or place of business, shall pay enterprise income tax on its income deriving from inside China at the reduced rate of enterprise income tax of 10%.

According to Notice of the Ministry of Finance and the State Administration of Taxation on Tax Policies Relating to Education (《財政部國家稅務總局關於教育稅收政策的通知》, the "**Circular 39**") and Notice of the Ministry of Finance and the State Administration of Taxation on Issues Concerning Strengthening the Administration over the Collection of Business Tax on Educational Services (《財政部、國家稅務總局關於加強教育勞務營業稅徵收管理有關問題的通知》, the "**Circular 3**"), schools shall be exempt from enterprise income tax on fees they have collected upon approval and have incorporated under the fiscal budget management or the special account management of the funds outside the fiscal budget. Schools shall be exempt from enterprise income tax on the financial allocations they have received and special subsidies they have obtained from their administrative departments or institutions at higher levels.

According to the Law of the PRC for Promoting Private Education and its implementing rules, a private school that does not require reasonable returns enjoys the same preferential tax treatment as public schools, whereas the preferential tax treatment policies applicable to private schools that require reasonable returns are separately formulated by the relevant authorities under the PRC State Council.

Income Tax In Relation To Dividend Distribution

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》, the "**Arrangement**") on 21 August 2006. According to the Arrangement, the withholding tax rate 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests in the PRC company.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《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》) promulgated by the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) which became effective on 20 February 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a Chinese resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax agreement.

Other Tax Exemptions

According to Circular 39 and Circular 3, the real properties and land used by schools, nurseries and kindergartens established by enterprises shall be exempt from house property tax and urban land use tax. Schools expropriate arable land upon approval shall be exempt from arable land use tax. Schools and educational institutions established by any enterprises, government affiliated institutions, social groups or other social organisations or individuals and citizens with non-state fiscal funds for education and open to the public upon the approval of the administrative department for education or for labour of the relevant people's government at the county level or above which has also issued the relevant school running licence, shall be exempted from deed tax on their ownerships of land and houses used for teaching activities.

Value-added Tax (增值稅, the "VAT")

According to the Temporary Regulations on Value-added Tax (Order No. 538 of the State Council) (《增值稅暫行條例》), which was promulgated by the State Council on 13 December 1993, came into effect on 1 January 1994, and was amended on 10 November 2008, 6 February 2016, and 19 November 2017 and the Detailed Implementing Rules of the Temporary Regulations on value-added Tax (Order No. 65 of the MOF) (《增值稅暫行條例實施細則》), which was promulgated by the MOF and came into effect on 25 December 1993, and was amended on 15 December 2008 and 28 October 2011, all taxpayers selling goods, providing processing, repairing or replacement services or importing goods within the PRC shall pay value-added tax. The tax rate of 17% shall be levied on general taxpayers selling or importing various goods; the tax rate of 17% shall be levied on the taxpayers providing processing, repairing or replacement service; the applicable rate for the export of goods by taxpayers shall be nil, unless otherwise stipulated.

Furthermore, according to the Trial Scheme for the Conversion of Business Tax to Value-added Tax (Cai Shui 2011 No. 110) (《營業稅改徵增值稅試點方案》), which was promulgated by the MOF and the State Administration of Taxation (國家稅務總局, the "**SAT**"), the State began to launch taxation reforms in a gradual manner with effect from 1 January 2012, whereby the collection of value-added tax in lieu of business tax items was implemented on a trial basis in regions showing significant radiating effects in economic development and providing outstanding reform examples, beginning with production service industries such as transportation and certain modern service industries.

Pursuant to the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》), (the "**Circular 36**"), which was promulgated on 23 March 2016 and took into effect from 1 May 2016 and was partly abolished, upon approval of the State Council, the pilot programme of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner as at 1 May 2016, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot programme with regard to payment of value-added tax instead of business tax. The Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to value-add Tax Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》), which was promulgated by the MOF and the SAT on 4 April 2018 and became effective on 1 May 2018, reduced the applicable Value-added tax rates for general value-added taxpayers to 16%, 10% and 6%, respectively. The Announcement on Policies for Deepening the VAT Reform (《關於深化增值稅改革有關政策的公告》), which was promulgated by the MOF, the SAT and the General Administration of Customs on 20 March 2019 and became effective on 1 April 2019, further reduced the applicable value-added tax rates for general value-added taxpayers with respect to value-added taxable sales or imported goods to 13% and 9%, respectively.

Pursuant to the Provisions on Transitional Policies for the Pilot Programme of the Collection of Value-added Tax in Lieu of Business Tax (《營業稅改徵增值稅試點過渡政策的規定》), income from providing education services for academic qualifications, which refers to the income from providing education services for academic qualifications for student enrollments within the prescribed admission plans, specifically including: income from tuitions, lodging fees, textbook fees, exercise-book fees, and exam entry fees that are examined and approved by the relevant departments and charged according to the prescribed standards, as well as income from boarding fees for catering services provided by school canteens, is exempted from value-added tax.

LEGAL REGULATIONS OVER FOREIGN EXCHANGE IN THE PRC

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC (《中華人民共和國外匯管理條例》, the "**Foreign Exchange Administration Rules**"). They were promulgated by the State Council of the PRC on 29 January 1996 and with effect from 1 April 1996 and were amended on 14 January 1997 and 5 August 2008. Under these rules, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the State Administration of Foreign Exchange (國家外匯管理局, the "**SAFE**") for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant governmental authorities (if necessary).

Pursuant to Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》, the "**Circular 13**"), which was promulgated on 13 February 2015 and implemented on 1 June 2015 and amended on 30 December 2019, the initial foreign exchange registration for establishing or taking control of a special purpose vehicle by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau.

According to the Circular on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) promulgated by the SAFE on 30 Mach 2015 and effective from 1 June 2015 and amended on 9 June 2016 and 30 December 2019, and the Circular on the Reform and Standardisation of the Management Policy of the Settlement of Capital Projects (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) promulgated by the SAFE on 9 June 2016, the settlement of foreign exchange by foreign invested enterprises shall be governed by the policy of foreign exchange settlement on a discretionary basis. However, the settlement of foreign exchange shall only be used for its own operation purposes within the business scope of the foreign invested enterprises and following the principles of authenticity.

According to the Notice of the SAFE on Optimising Foreign Exchange Administration to Support the Development of Foreign-related Business (《國家外匯管理局關於優化外匯管理支持涉外業務發展的通知》), which was issued by the SAFE on 10 April 2020 and took effect from the same day, under the prerequisite of ensuring true and compliant use of funds and compliance with the prevailing administrative provisions on use of income under the capital account, enterprises which satisfy the criteria are allowed to use income under the capital account, such as capital funds, foreign debt and overseas listing, etc. for domestic payment, without prior provision of proof materials for veracity to the bank for each transaction.

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

Under the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009) (《關於外國投資者併購境內企業的規定》, the "**M&A Rules**"), a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

INTRODUCTION

The Target College, located in Longkou City, Shandong Province, the PRC (中國山東省龍口市), is a private institution of higher education that provides undergraduate and junior college diploma programmes approved by the Ministry of Education of the PRC. The predecessor of the Target College, Shandong Nanshan Vocational and Technical College* (山東南山職業技術學院), is an associate college. It was registered and approved as a private non-enterprise unit under the laws of the PRC on 17 October 2000. It was then approved to be upgraded to an undergraduate college in 2005, with the Permit for Operating a Private School (民辦學校辦學許可證) being issued on 1 September 2005. As at the Latest Practicable Date, the paid-in capital of the Target College was RMB200.0 million.

MILESTONE OF THE TARGET COLLEGE

The following table sets forth certain key milestones of the Target College's history:

Year	Event
2000	Shandong Nanshan Vocational and Technical College* (山東南山職業技術學院) ("**Nanshan VTC**"), the predecessor of the Target College, was approved to be established as an associate college by Nanshan Group
2005	The Target College was approved to be upgraded to an undergraduate college from Nanshan VTC with the name of Yantai Nanshan University* (煙台南山學院)
2006	The Target College was ranked by the Training Centre of the National Institute of Education Sciences of the Ministry of Education of the PRC* (教育部中央教育科學研究所培訓中心) as one of the top 20 private higher education institutes in terms of quality of education (中國民辦高校教育教學品質20強) as well as one of the "Top 10 Most Trustworthy Private Higher Education Institutes of the PRC (中國十佳誠信民辦高校)"
2007	The Target College was recognised by the Chinese Educational Research Society* (中國教育研究會) as the "Most Innovative University (最具創新型大學)" and the "First Batch of Career-Oriented University of the PRC (全國首批就業型大學)"
2009	The Target College was recognised by the Education Authority as an "Advanced Entity in Shandong Province in term of Higher Education Management (山東省高校教學管理先進集體)"

Year	Event
2010	The Target College was ranked by The Comprehensive Provincial Condition Research Centre of the Shandong Academy of Social Sciences* (山東省社科院省情綜合研究中心) and Shandong Daming Economic Development Research Centre* (山東大明經濟發展研究中心) as one of the "Top 10 Private Higher Education Institutes with Highest Public Satisfaction in Shandong Province (山東民辦高校公眾滿意度十佳院校)"
2016	The Target College was recognised as a first-tier private higher education institute in Shandong under the "Shandong Private Higher Education Institutes with Excellent Characteristics and Development Awards (山東省民辦高校優質特色發展獎勵)"
2017	The Target College was recognised as an "Initiation (Cultivation) Development Unit for the Conferment of Master's Degree (碩士學位授予立項(培育)建設單位)"
2018	The Target College was recognised by the Department of Human Resources and Social Security of the Shandong Province as one of the "Model Colleges of Experimental Innovation and Entrepreneurship in the Shandong Province (山東省創新創業典型經驗高校)"
2019	The Target College was recognised by Shandong Internet Media Group* (山東省互聯網傳媒集團) as the "Higher Education Institute with the Best Social Reputation in Shandong of the Year (年度山東最佳社會聲譽高校)"
2020	The Target College was recognised by Qilu Evening News* (齊魯晚報) as the "Higher Education Institute with Graduates Most Recognised by Employers in 2020 (2020年度畢業生最受用人單位認可高校)"

THE REGISTERED SCHOOL SPONSOR, OWNERSHIP AND INFORMATION OF THE TARGET COLLEGE

The Nanshan VTC, the predecessor of the Target College, was established by the Nanshan Group in 2000. Since then and up to the Latest Practicable Date, as Nanshan Group had maintained control over the Target College including its teaching development and planning, financial management and planning, and composition of management personnel, the financial results of the Target College had been consolidated into the consolidated financial statements of the Nanshan Group in light of Nanshan Group's control over the Target College. During the Track Record Period and up to the Latest Practicable Date, there had been no change in the control of and the capital of the Target College. No part of the capital of the Target College is under option, or agreed conditionally or unconditionally to be put under option. As at the Latest Practicable Date, Mr. Song is the registered school sponsor of the Target College as designated by the Nanshan Group.

As at the Latest Practicable Date, Nanshan Group was owned as to 51% by the Nanshan Village Committee and 49% by Mr. Song Jianbo, who in turn is the spouse of Ms. Sui, a controlling shareholder of the Company.

BACKGROUND OF THE CONTRACTUAL ARRANGEMENTS

Upon Completion, the Group will conduct the education business through the Target Entities in the PRC as PRC laws and regulations generally restrict foreign ownership in the private higher education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners, which are currently not practicable for the Group to meet or obtain. The Group will not hold any equity interest in the Target Entities upon Completion. The Contractual Arrangements, through which the Group will obtain control over and derive the economic benefits from the Target Entities, will be narrowly tailored to achieve the business purpose and minimise the potential conflict with relevant PRC laws and regulations. The Directors are of the view that the Contractual Arrangements do not deviate from the guidance set out in the Stock's Exchange guidance letter GL77-14 and the Stock Exchange's listing decision LD43-3. The Group will enter into the Contractual Arrangements with the Target Entities, Mr. Song and Nanshan Group (where appropriate) after obtaining approval from the Shareholders and in accordance with the Acquisition Agreement.

Higher Education

Pursuant to the Negative List, the provision of higher education in the PRC falls within the "restricted" category. According to the applicable PRC laws and regulations, schools with different foreign investment requirements/accessibility are categorised by their education level (辦學層次), rather than the education programmes (課程) they provide. In this regard, the Target College is a higher education school and the foreign investment in higher education falls within the "restricted" category pursuant to the Negative List, regardless of the specific education programmes the school may provide. In particular, the Negative List explicitly restricts higher education to Sino-foreign cooperation, which means the foreign investor shall be an educational institution and shall operate higher education in the PRC through cooperation with a PRC educational institution in compliance with the Sino-Foreign Regulation. In addition, the Negative List also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools shall be a PRC national; and (b) the representatives of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "**Foreign Control Restriction**"). The Group intends to fully comply with the Foreign Control Restriction in respect of the Target College on the basis that (a) the principals and the chief executive officers of the Target College are all PRC nationals; and (b) eight out of nine of the members of the board of directors of the Target College are PRC nationals.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if the Group is to apply for the Target College to be reorganised as a Sino-foreign joint venture private school for PRC students at a higher education institution (a "**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 that provides high quality education (the "**Qualification**

Requirement"). As confirmed in the interview with the relevant competent education authority as mentioned below, that there are no implementation measures or specific guidance promulgated on the Qualification Requirement in accordance with the existing PRC laws, regulations or governmental documents but only general principles requiring school sponsor which applies for establishing a Sino-foreign joint venture school shall have relevant qualification and be able to provide high quality education services.

Furthermore, pursuant to the MOE Opinions, the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "**Foreign Ownership Restriction**") and the establishment of such Sino-Foreign Joint Venture Private School is subject to approval of education authorities at the provincial or national level.

The Qualification Requirement

The PRC Legal Advisers have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement. In October 2021, with the assistance of the PRC Legal Advisers, the Target College consulted the Education Authority, being the competent authority as advised by the PRC Legal Advisers to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to the Target College. The Target College was advised by the International Cooperation and Communication Division (國際合作與交流處(台港澳事務辦公室)) of the Education Authority that:

(i) no implementing measures or specific guidance were promulgated pursuant to the Sino-Foreign Regulation, including the Qualification Requirement in Shandong Province;

(ii) as a matter of policy, the Education Authority will not approve an application to establish a new Sino-Foreign Joint Venture Private School with a legal person status; and

(iii) the execution of the Contractual Arrangements does not require approval from the education authorities.

Given that as at the Latest Practicable Date, as advised by the PRC Legal Advisers, the Group does not meet the Qualification Requirement as the Group has no experience in operating a school outside of the PRC, and as there are no implementing measures or specific guidance on the Qualification Requirement, it is therefore not practicable for the Group to seek to apply to reorganise the Target College as a Sino-Foreign Joint Venture Private School. During such consultation, the Education Authority has confirmed that it is impossible for the Target College to be approved as a Sino-Foreign Joint Venture Private School with a legal person status and there is no implementation rules or guidance for such application at this stage.

Notwithstanding that there are no implementing measure or specific guidance on the Qualification Requirement and that the Education Authority will not approve the Target College to be a Sino-Foreign Joint Venture Private School with a legal person status as discussed above, the Group plans to take the following steps after the Completion to demonstrate the commitment to working toward the compliance with the Qualification Requirement:

Expected timeframe after Completion	Steps to be taken
Within six months	Upon obtaining control over the Target College, the Group will discuss with the core management team of the Target College on cooperation opportunities between the Target College and overseas higher education institutions, including information exchange, joint research activities, and mutual visits and exchange of students and teaching staff. Potential cooperation target(s) will be identified at this stage.
Within six months to one year	Upon identification of potential cooperation target(s), the Target College will reach out to the same to explore both the feasibility and mode of cooperation. The Group plans to realise and implement the cooperation within six months to one year after Completion, depending on the availability of and feedbacks from the cooperation target(s). Through such cooperation process, the Group will seek to familiarise itself with the overseas higher education market.
Within one to two years	With the experience from the Target College's cooperation with overseas higher education institutions, the Group will further explore business opportunities in overseas higher education market and will identify appropriate overseas higher education market. Upon the identification of potential market, it is expected that further feasibility studies will be conducted to allow for a more throughout market assessment. The Group will also take into account the availability of resources, prospect of the Group's business and the outlook of the economic environment to establish its higher education institution in the overseas market identified.

Expected timeframe after Completion	Steps to be taken
Within one to three years	The Group will implement its plan to establish its higher education institution in the overseas market identified, in the absence of negative factors that may materially adversely affect the Group. It is expected that the Group will engage professional consultants with appropriate experience and background to assist in, among others, (i) the incorporation of a subsidiary with a view to providing educational services, (ii) the relevant licensing applications necessary for establishing and/or operating a higher-education institution, and (iii) the recruitment of appropriate teaching and administrative staff for the operation and management of such higher-education institution. In this connection, the Company has started reaching out to consultants with experience in setting up overseas higher education institution, and the Company intends to engage such consultants to assist in conducting feasibility studies and market assessment in respect of the relevant overseas higher education market going forward.

Throughout the above process, the Group will seek advice from its legal advisers as to PRC laws from time to time to keep itself updated on all relevant regulatory developments and guidance relating to the Qualification Requirement, including whether there will be any change in policy for approving Sino-Foreign Joint Venture Private Schools in Shandong Province, and assess whether we are qualified to meet the Qualification Requirement and to make appropriate adjustments to the above plan where desirable. Periodic updates will also be provided in the Company's annual and interim reports after Completion to inform Shareholders and potential investors of (i) the actions undertaken towards meeting the Qualification Requirement, and (ii) regulatory updates in relation to the Qualification Requirement. The PRC Legal Advisors are of the view that based on the consultation with the Education Authority and the plan above, although it is not possible for the Education Authority to approve the application to establish Sino-Foreign Joint Venture Private Schools at the current stage, the abovementioned steps taken by the Group upon the Completion to demonstrate compliance with the Qualification Requirements are reasonable and appropriate subject to the discretion of the competent authority. If the specific guidance and implementing rules with regards to the Qualification Requirement are promulgated and assuming the new school to be established by the Group in the abovementioned plan gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement in the future (provided that the then PRC laws and regulations do not impose new requirements, restrictions, or prohibitions in relation to the establishment of the Sino-Foreign Joint Venture Private Schools), the Group may be able to get the approval to establish a Sino-Foreign Joint Venture Private Schools by relevant educational authority or such other educational institution subject to the approval from the competent educational authorities.

As at the Latest Practicable Date, the Group had not encountered any interference or encumbrance from any governing bodies to the plan in adopting the Contractual Arrangements and the financial results of the Target Entities, which engage in the provision of higher educational service, will be consolidated to those of the Group upon Completion. According to the PRC Legal Advisers, under PRC laws and regulations, the failure to meet the Qualification Requirement and the adoption of the Contractual Arrangements to operate the higher education business do not render the higher education business as illegal operations in the PRC. In addition, the Group has obtained confirmation from the Education Authority during the consultations as mentioned above that the Contractual Arrangements do not require approval from relevant PRC educational authorities. However, no positive regulatory assurance has been obtained from relevant PRC educational authorities with respect to the use of the Contractual Arrangements in the education industry.

Circumstances in which the Group Will Unwind the Contractual Arrangements

Under the Sino-Foreign Regulation, foreign investment in higher education in the PRC is required to be in the form of cooperation between PRC educational institutions and foreign educational institutions and subject to the Foreign Ownership Restriction and the Foreign Control Restriction, a foreign investor can only hold less than 50% interest in a Sino-Foreign Joint Venture Private School and not less than 50% of the governing body of the institute offering higher education must be appointed by the Chinese investors.

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

- in circumstance (a), the Group will partially unwind the Contractual Arrangements and directly hold an equity interest of less than 50% in the Target College (such as a 49.99% equity interest) as the 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, the Group will not be able to control the Target College without the Contractual Arrangements 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, the Group will still rely on the Contractual Arrangements to establish control over the Target College. The Group will also acquire rights to appoint members to the board of directors who together shall constitute less than 50% of the board of directors of the relevant school. The Group will then control the voting power of the other members of the board of directors appointed by the domestic interest holder(s) by way of the Contractual Arrangements;

- in circumstance (b), the Group will partially unwind the Contractual Arrangements and directly hold an equity interest of less than 50% in the relevant school (such as a 49.99% equity interest) as the 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, the Group will not be able to control such school without the Contractual Arrangements in place with respect to the domestic interests. The Group will also acquire rights to appoint all members of the board of directors of the Target College;

- in circumstance (c), notwithstanding the Group will be able to hold majority interests in Sino-Foreign Joint Venture Private Schools, the Sino-Foreign Regulation still dictates that there be a domestic interest in the school and the Group is ineligible to operate the schools by itself. Under such circumstances, the Group will acquire rights to appoint members of the board of directors who together shall constitute less than 50% of the board of directors of the Target College. The Group will then control the voting power of such members appointed by the domestic interest holder(s) by way of the Contractual Arrangements. The Group also plans to hold up to 70% of equity interests permissible by the relevant laws and regulations in the relevant schools directly, subject to the approval of the relevant government authorities. As for the remaining minority domestic interests which the Group intends to consolidate, the Group will then control them pursuant to the Contractual Arrangements; and

- in circumstance (d), the Group would be allowed to directly hold 70% of the interests in the Target College acquired through the Acquisition Agreement and the Group will fully unwind the Contractual Arrangements and directly hold the relevant equity interests in the Target College. The Group will also acquire rights to appoint all members of the board of directors of the Target College.

Pursuant to the 1st Exclusive Call Option Agreement and 2nd Exclusive Call Option Agreement, Longkou Zhimin undertakes that, if the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), it will exercise the equity call option in full to hold the relevant interest in the Target Entities and unwind the Contractual Arrangements accordingly. Please refer to the paragraph headed "— Termination of the Contractual Arrangements" in this section for further details.

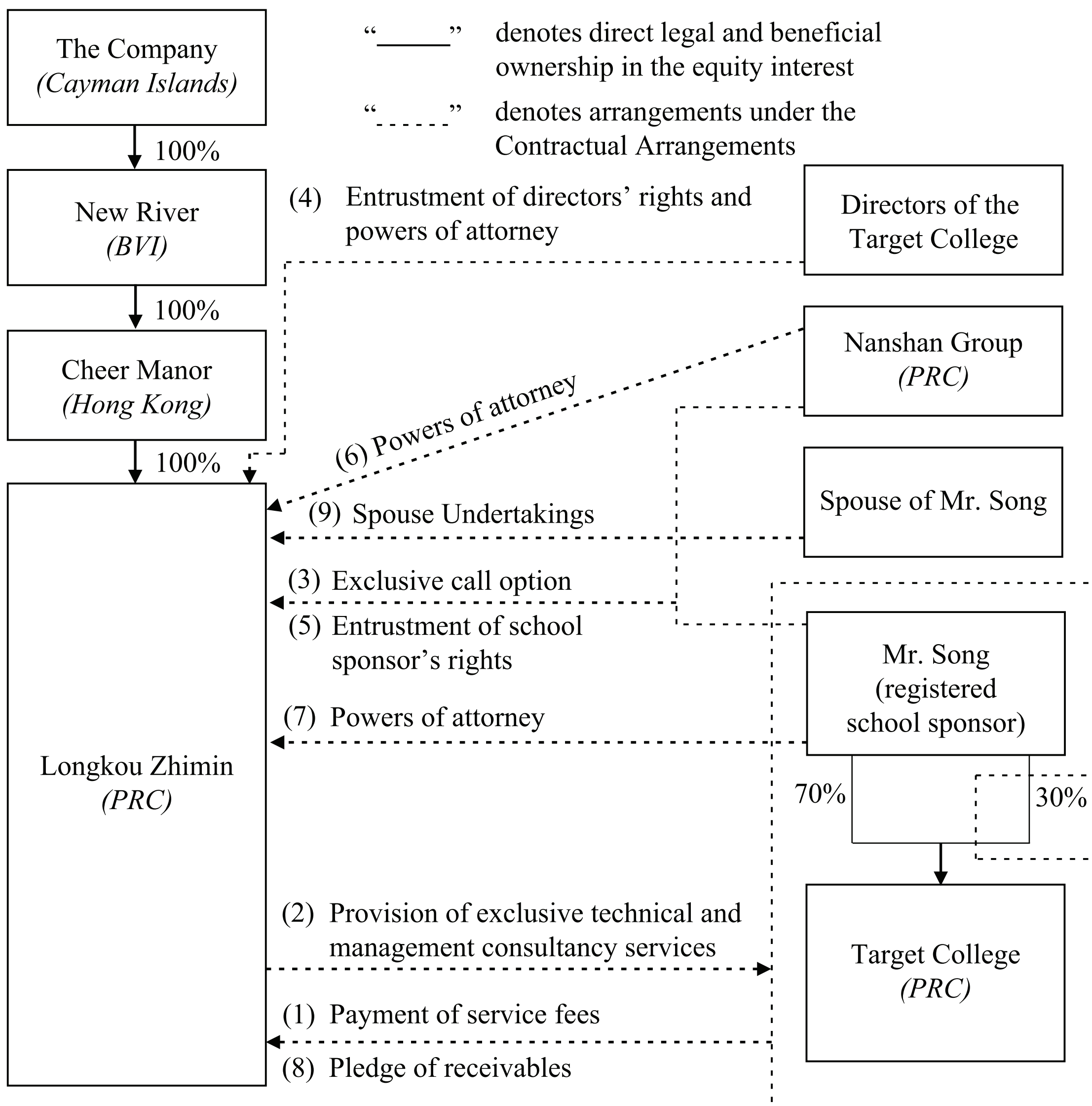
OPERATION OF THE CONTRACTUAL ARRANGEMENTS

In order to comply with the PRC laws and regulations as set out above while availing itself of international capital markets and maintaining effective control over all of the operations of the Target College, the wholly-owned subsidiary of the Company, Longkou Zhimin, intends to enter into the 1st set of Structured Contracts that constitute the Contractual Arrangements with, among others, the Target College, Mr. Song and Nanshan Group upon Completion, under which 70.0% of the economic benefits arising from the business of the Target College will be transferred to Longkou Zhimin to the extent permitted under the PRC laws and regulations by means of service fees payable by the Target College to Longkou Zhimin.

And upon (i) the MOE approving the Designated School Sponsor to become the sole school sponsor of the Target College; and (ii) the Education Department of Shandong Province and the Department of Civil Affairs of Shandong Province (山東省民政廳) renewing the articles of association of the Target College and the certificate of registration as a private non-enterprise unit of the Target College (if applicable) in relation to the change of the school sponsor. It is expected that Longkou Zhimin will terminate the 1st set of Structured Contracts and enter into the 2nd set of Structured Contracts that constitute the Contractual Arrangements with, among others, the Target College and the Designated School Sponsor, under which 70.0% of the economic benefits arising from the business of the Target Entities will continue to be transferred to Longkou Zhimin to the extent permitted under the PRC laws and regulations by means of service fees payable by the Target College and the Designated School Sponsor to Longkou Zhimin.

The following simplified diagram illustrates the flow of economic benefits from the Target College and/or the Designated School Sponsor to the Group stipulated under the Contractual Arrangements (i) upon Completion and the entering into of the 1st set of Structured Contracts; and (ii) after the entering into of the 2nd set of Structured Contracts:

Upon Completion and the entering into of the 1st set of Structured Contracts



Notes:

(1) Payment of service fees. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (1) 1st Business Cooperation Agreement" in this section for details.

(2) Provision of exclusive technical and management consultancy services. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (2) 1st Exclusive Technical Service and Management Consultancy Agreement" in this section for details.

(3) Exclusive call option to acquire not more than 70% of the school sponsor's interest in the Target College. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (3) 1st Exclusive Call Option Agreement" in this section for details.

(4) Entrustment of directors' rights in the Target College by the directors including directors' powers of attorney. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (4) 1st School Sponsor's and Directors' Rights Entrustment Agreement" and "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (7) 1st Appointee(s)' Powers of Attorney" in this section for details.

(5) Entrustment of school sponsor's rights. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (4) 1st School Sponsor's and Directors' Rights Entrustment Agreement" in this section for details.

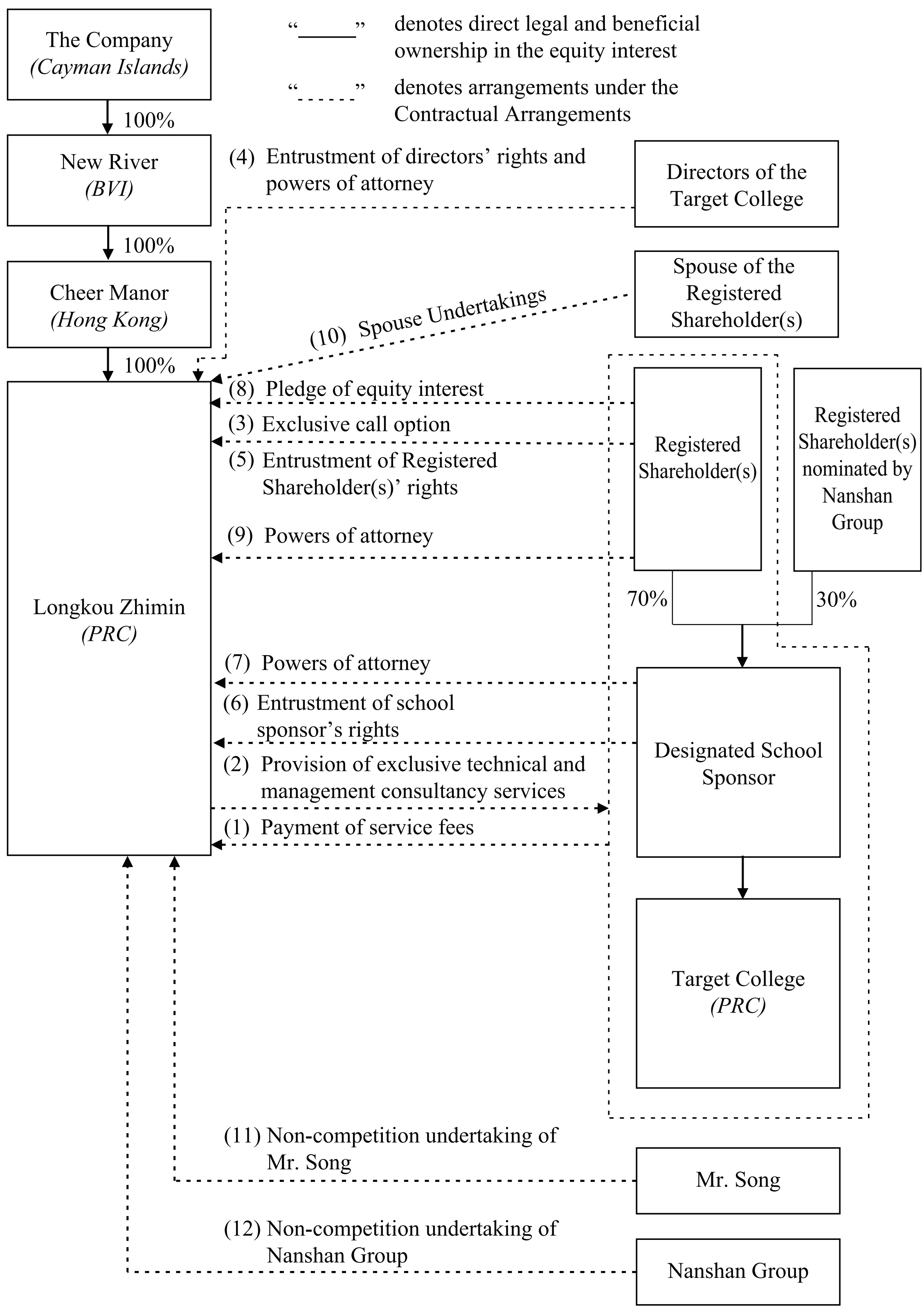
(6) Nanshan Group's powers of attorney. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (5) Nanshan Group's Powers of Attorney" in this section for details.

(7) Mr. Song's powers of attorney. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (6) Mr. Song's Powers of Attorney" in this section for details.

(8) Pledge of receivables by the Target College. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (8) Receivables Pledge Agreement" in this section for details.

(9) Undertakings of the spouse of Mr. Song. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (9) 1st Spouse Undertakings" in this section for details.

After the entering into of the 2nd set of Structured Contracts



Notes:

(1) Payment of service fees. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (1) 2nd Business Cooperation Agreement" in this section for details.

(2) Provision of exclusive technical and management consultancy services. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (2) 2nd Exclusive Technical Service and Management Consultancy Agreement" in this section for details.

(3) Exclusive call option to acquire not more than 70% of the Registered Shareholder(s)' interest in the Target College. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (3) 2nd Exclusive Call Option Agreement" for details.

(4) Entrustment of directors' rights in the Target College by the directors including directors' powers of attorney. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (6) 2nd School Sponsor's and Directors' Rights Entrustment Agreement" and "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (8) 2nd Appointee(s)' Powers of Attorney" in this section for details.

(5) Entrustment of Registered Shareholder(s)' rights. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (4) Shareholders' Rights Entrustment Agreement" in this section for details.

(6) Entrustment of Designated School Sponsor's rights. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (6) 2nd School Sponsor's and Directors' Rights Entrustment Agreement" in this section for details.

(7) Designated School Sponsor's powers of attorney. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (7) The Designated School Sponsor's Powers of Attorney" in this section for details.

(8) Pledge of equity interest by the Registered Shareholder(s). Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (5) Equity Pledge Agreement" in this section for details.

(9) Registered Shareholder(s)' powers of attorney. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (10) The Registered Shareholder(s)' Powers of Attorney" in this section for details.

(10) Undertakings of the spouse of the Registered Shareholder(s). Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (9) 2nd Spouse Undertaking" in this section for details.

(11) Non-competition undertaking of Mr. Song. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (11) Non-competition Undertaking of Mr. Song" in this section for details.

(12) Non-competition undertaking of Nanshan Group. Please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (12) Non-competition Undertaking of Nanshan Group" in this section for details.

The Designated School Sponsor is a special purpose vehicle to be acted as the holding company to hold interests in the Target College and is not engaged in any other business other than the aforesaid. Under the Contractual Arrangements, the Target Entities will enter into the 2nd Exclusive Technical Service and Management Consultancy Agreement with, among others, Longkou Zhimin, pursuant to which the Target Entities will be directly bound by and subject to the terms and conditions thereof. Accordingly, for any services provided by Longkou Zhimin to the Target Entities, the respective service fee will be paid by the Target Entities to Longkou Zhimin directly. In addition, in order to prevent the leakage of assets and values of the Target Entities, the Target Entities will undertake that, without the prior written consent of Longkou Zhimin, the Target Entities shall not, among others, distribute any school operating income or other interest or benefit to the Registered Shareholders. For further details, please refer to the paragraph headed "— Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (1) 2nd Business Cooperation Agreement" in this section.

Summary of the Material Terms of the Contractual Arrangements

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

1st set of Structured Contracts

(1) 1st Business Cooperation Agreement

The parties to the 1st Business Cooperation Agreement are (i) Longkou Zhimin, (ii) Mr. Song, (iii) Nanshan Group, and (iv) the Target College.

Pursuant to the 1st Business Cooperation Agreement, Longkou Zhimin shall provide technical services, management support and consulting services necessary for the private education business, and in return, the Target College shall make payments accordingly.

To ensure the due performance of the Contractual Arrangements, the Target College will agree to comply, and procure any of its subordinate entities or units, if any, to comply with, and Mr. Song and Nanshan Group will agree to procure the Target College and its subordinate entities or units, if any, to comply with the obligations as prescribed under the 1st Business Cooperation Agreement, including but not limited to, those set forth as follows:

(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 the Target College and the quality and standard of private education;

(b) to prepare school development plans and annual working plans in accordance with the instructions of Longkou Zhimin;

(c) to carry out its private education activities and other relevant business under the assistance of Longkou Zhimin;

(d) to carry out and manage its daily operations and financial management in accordance with the recommendations, advice, principles and other instructions of Longkou Zhimin;

(e) to execute and act upon the recommendations of Longkou Zhimin in terms of employment and removal of senior management and staff;

(f) to adopt the advice, guidance and plans given by Longkou Zhimin in relation to their respective strategic development;

(g) to carry out its business operations and renew and maintain its respective necessary licences; and

(h) to provide its business operation and financial information upon request by Longkou Zhimin and promptly inform Longkou Zhimin of the circumstances which have or may have material adverse effect on the business operation, as well as make every effort to prevent such circumstances and/or the expansion of losses.

In addition, pursuant to the 1^{st} Business Cooperation Agreement:

(a) Mr. Song undertakes to Longkou Zhimin that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of his direct or indirect interest in the Target College, he shall have made all necessary arrangement and sign all necessary documents such that his 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 enforcement of the Contractual Arrangements;

(b) in the event of the dissolution, liquidation, bankruptcy or reorganisation of Longkou Zhimin, (i) Mr. Song and Nanshan Group unconditionally agree that, other persons designated by the Company shall inherit the rights and obligations of Longkou Zhimin under the Contractual Arrangements, and sign all necessary documents in addition to all necessary measures to make sure all the aforementioned rights and obligations can be taken over smoothly by the designated persons; (ii) Mr. Song and Nanshan Group agree that, Mr. Song and Nanshan Group shall sell or deposit their interest in the Target College in accordance with the instructions of the Company and transfer 70% of receivable at nil consideration to the Company or other persons designated by the Company; or (iii) Mr. Song and Nanshan Group agree that, Mr. Song and Nanshan Group shall sell or deposit assets of the Target College in accordance with the instructions of the Company and transfer 70% of receivable at nil consideration to the Company or other persons designated by the Company;

(c) Mr. Song and Nanshan Group undertake that, in the event of the dissolution or liquidation of the Target College, (i) Longkou Zhimin and/or its designated person shall have the right to exercise all school sponsor's right on behalf of Mr. Song and Nanshan Group (including but not limited to, deciding to dissolve and liquidate the Target College, instructing and delegating the liquidation group and/or its agent of the Target College, as well as approving liquidation plan and report); (ii) Mr. Song and Nanshan Group shall transfer 70% of assets received or receivable in its capacity as school sponsor of the Target College as a result of the dissolution or liquidation of the Target College to Longkou Zhimin or other persons designated by the Company at nil consideration, and instruct the Target College to transfer such assets directly to Longkou Zhimin or other persons designated by the Company before such dissolution or liquidation; and (iii) if consideration is required for such transfer under the then applicable PRC laws, the Mr. Song and Nanshan Group shall compensate Longkou Zhimin and/or the person as designated by the Company such amount;

(d) the Target College agrees that, without the prior written consent of Longkou Zhimin, the Target College shall not declare or pay to Mr. Song and/or Nanshan Group any school operating income or other interest or benefit. In the event that Mr. Song and/or Nanshan Group receive any school operating income or other interest or benefit from the Target College, upon the request of Longkou Zhimin, Mr. Song and Nanshan Group shall unconditionally and without compensation transfer such amount to Longkou Zhimin; and

(e) without the consent of Longkou Zhimin, Mr. Song and/or Nanshan Group shall not increase the registered capital of the Target College and/or its any of its subordinate entities or units, while Mr. Song and Nanshan Group shall agree and confirm that, the Mr. Song and Nanshan Group will pledge the corresponding increased equity interest to Longkou Zhimin to perform their respective obligations and guarantees in respect of any debt under these Contractual Arrangements. Each of the parties will undertake that, each party shall prepare all necessary documents before the aforesaid capital increase and sign the equity pledge agreements on the date of completion of the capital increase registration, and complete the equity pledge registration procedures as soon as possible.

In order to prevent the leakage of assets and values of the Target College, Mr. Song, Nanshan Group and the Target College will undertake that, without the prior written consent of Longkou Zhimin or its designated party, Mr. Song, Nanshan Group and the Target College shall not conduct or cause to conduct any activity or transaction which may have any actual impact (i) on the assets, business, staff, obligations, rights or operations of the Target College or (ii) on the ability of Mr.

Song, Nanshan Group and the Target College to perform the obligations under the Contractual Arrangements. Such activities and transactions include, without limitation:

(a) establishment of any subordinate entities or units by the Target College;

(b) conduct of any activity by any of the Target College and/or its subordinate entities or units which are outside the ordinary course of business or change the mode of operations of the Target College or any of its subordinate entities or units;

(c) consolidation, subdivision, change of form of corporate organisation, dissolution or liquidation of the Target College and/or any of its subordinate entities or units;

(d) providing any borrowing, loan or guarantee and inheritance in respect of any debt to, or obtaining any borrowing and loan from, the Target College and/or any of its subordinate entities or units;

(e) providing any borrowing, loan or guarantee in respect of any debt, or obtaining any borrowing and loan by the Target College and/or any of its subordinate entities or units to any third party, except in the ordinary course of business and provided that the amount of such debt is less than RMB1.0 million;

(f) change or removal of any director, supervisor or senior management (including but not limited to manager, deputy manager, chief financial officer, chief technical officer, principal and dean) of any of the Target College and/or its subordinate entities or units, increase or decrease of their remuneration package, or change of their appointment terms and conditions;

(g) sale, transfer, lending or authorising the use or disposal of any assets or rights (including but not limited to domain, trademark, intellectual property and exclusive technology) of any of the Target College and/or any of its subordinate entities or units to any third party other than Longkou Zhimin or its designated party, or purchase from any third party any assets or rights, except in the ordinary course of business and provided that the transaction amount is less than RMB1.0 million;

(h) sale of any equity interest or school sponsor rights in any of the Target College and/or its subordinate entities or units to any third party other than Longkou Zhimin or its designated party, or increase or reduction of the registered capital or change of the structure of the equity or school sponsor's interest of any of the Target College and/or its subordinate entities or units or enter into partnership, joint venture or profit-sharing arrangements, or any other arrangements to transfer benefits or realise profit-sharing in the form of usage fees, service charges or consultancy fees;

(i) providing security over equity interest and/or school sponsor's interest in or assets or rights of, or creating encumbrance over equity and/or school sponsor's interest in or assets of any of the Target College and/or its subordinate entities or units to third parties other than Longkou Zhimin or its designated party;

(j) altering, amending or revoking any permits of any of the Target College and/or any of its subordinate entities or units;

(k) amending the articles of association or scope of business of any of the Target College and/or any of its subordinate entities or units;

(l) change of any normal business procedures or amendment of any internal procedures and system of any of the Target College and/or its subordinate entities or units;

(m) entering into any business contracts outside the ordinary course of business except pursuant to the plan or suggestion of Longkou Zhimin or the Company;

(n) distribution of dividend, school operating income or other payments to the Target College, or the shareholder(s) of the Target College and/or its subordinate entities or units;

(o) carrying out any activity which has or may have an adverse effect on the daily operations, business or assets of any of the Target College and/or its subordinate entities or units or their ability to make any payment to Longkou Zhimin;

(p) entering into any transaction which has or may have an adverse effect on the transactions contemplated under the Contractual Arrangements; and

(q) transfer of his/its rights and obligations under the Contractual Arrangements to any third party other than Longkou Zhimin or its designated party, or establishment and commencement of any cooperation or business relationship similar to that under the Contractual Arrangements with any third party by Mr. Song, Nanshan Group, any of the Target College and/or its subordinate entities or units.

Furthermore, Mr. Song and Nanshan Group will undertake to Longkou Zhimin that, unless with the prior written consent of Longkou Zhimin, Mr. Song and Nanshan Group (severally or jointly) shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with the Target College and/or any of its subordinate entities or units ("**Competing Business of the Target College**"), (ii) use information obtained from the Target College and/or any of its subordinate entities or units for the Competing Business of the Target College, and (iii) obtain any benefit from any Competing Business of the Target College. Mr. Song and Nanshan Group will further consent and agree that, in the event that Mr. Song and/or Nanshan Group (severally or jointly) directly or indirectly engage, participate in or conduct any Competing Business of the Target College, Longkou Zhimin and/or other entities as designated by the Company shall be granted an option to require the entity engaging in the Competing Business of the Target College to enter into an arrangement similar to that of the Contractual Arrangements. If Longkou Zhimin and/or other entities as designated by the Company does not exercise such option, Mr. Song and Nanshan Group shall cease the operation of the Competing Business of the Target College within a reasonable time.

(2) 1st Exclusive Technical Service and Management Consultancy Agreement

The parties to the 1st Exclusive Technical Service and Management Consultancy Agreement are (i) Longkou Zhimin, and (ii) the Target College.

Pursuant to the 1st Exclusive Technical Service and Management Consultancy Agreement, Longkou Zhimin agrees to provide exclusive technical services to the Target College, including but not limited to, (a) design, development, update and maintenance of educational software for computer and mobile devices; (b) design, development, update and maintenance of webpages and websites necessary for the education activities of the Target College; (c) design, development, update and maintenance of management information systems necessary for the education activities of the Target College; (d) provision of other technical support necessary for the education activities of the Target College; (e) provision of technical consulting services; (f) provision of technical training; (g) engaging technical staff to provide on-site technical support; and (h) providing other technical services reasonably requested by the Target College.

Furthermore, Longkou Zhimin will agree to provide exclusive management consultancy services to the Target College, including but not limited to, (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimisation on annual budget; (h) advising on design of internal structures and internal management; (i) provision of administrative staff management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) building of online and offline marketing network; and (m) providing other management technical services reasonably requested by the Target College.

In consideration of the technical and management consultancy services provided by Longkou Zhimin, the Target College will agree to pay Longkou Zhimin a service fee equal to 70.0% of its amount of surplus from operations (after deducting all costs, taxes, and other fees to be reserved or deducted as required by the relevant PRC laws and regulations) which shall be determined by Longkou Zhimin with reference to factors including (i) complexity and difficulty of technologies involved in the services provided by Longkou Zhimin; (ii) resources invested and time spent by employees of Longkou Zhimin for the provision of relevant services; (iii) content and commercial value of the services provided; (iv) market price of services provided; and (v) business operation of the Target College as the service recipients.

Pursuant to the 1st Exclusive Technical Service and Management Consultancy Agreement, unless otherwise prescribed under the PRC laws and regulations, Longkou Zhimin 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 Longkou Zhimin to the Target College, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the 1st Exclusive Technical Service and Management Consultancy Agreement and/or any other agreements entered into between Longkou Zhimin and other parties. To the extent prescribed under the PRC laws and regulations, the intellectual properties, which are restricted or prohibited from owning by Longkou Zhimin, shall be owned by the Target College until permissible under the PRC laws and regulations. The Target College shall transfer the aforesaid intellectual properties at the lowest consideration permissible under the PRC laws and regulations to Longkou Zhimin in addition to assist with the registration procedures.

Without the written consent of Longkou Zhimin, the Target College shall not make (i) any disposal of material assets and (ii) changes to the current ownership structure of the Target College. The Target College shall not enter into transactions, which may materially affect its assets, responsibilities, business operation, ownership structures, equity interest held by third parties and other legal rights, outside their ordinary course of business without the prior disclosure and written consent of Longkou Zhimin.

(3) 1st Exclusive Call Option Agreement

The parties to the 1st Exclusive Call Option Agreement are (i) Longkou Zhimin, (ii) Mr. Song, (iii) Nanshan Group, and (iv) the Target College.

Under the 1st Exclusive Call Option Agreement, Mr. Song and Nanshan Group irrevocably grant Longkou Zhimin or its designated purchaser the exclusive right to purchase not more than 70% of their interest in the Target College (the "**1st Interests Call Option**"). The purchase price payable by Longkou Zhimin in respect of the transfer of such interest upon exercise of the 1st Interests Call Option shall be the lowest price permitted under the PRC laws and regulations. Longkou Zhimin or its designated purchaser shall have the right to purchase such proportion of the interest in the Target College as it decides at any time. Mr. Song and Nanshan Group shall bear the taxes arising from the transfer of interest in the Target College unless the applicable laws and regulations explicitly require that such taxes be borne by Longkou Zhimin or its designated purchaser.

In the event that PRC laws and regulations allow Longkou Zhimin or other foreign-owned entities designated by the Company to directly hold all or part of the school sponsor's interest in the Target College and operate private education business in the PRC, Longkou Zhimin shall issue the notice of exercise of the 1st Interests Call Option as soon as practicable, and the percentage of school sponsor's interest in the 1st Interests Call Option shall not be lower than the maximum percentage then allowed but limited to 70% to be held by Longkou Zhimin or other foreign-owned entities designated by the Company under PRC laws and regulations.

Mr. Song and Nanshan Group will further undertake to Longkou Zhimin that, they:

(a) shall not sell, assign, transfer or otherwise dispose of or create encumbrance over their interest in the Target College without the prior written consent of Longkou Zhimin;

(b) shall not increase or reduce or agree to the increase or reduction of capital investment in the Target College without the prior written consent of Longkou Zhimin;

(c) shall not agree to or procure the Target College to divide into or merge with other entities without the prior written consent of Longkou Zhimin;

(d) shall not dispose of or procure the management of the Target College to dispose of, or create encumbrance over any of the assets of the Target College without the prior written consent of Longkou Zhimin, except in the ordinary course of business and provided that the value of such assets so disposed shall not exceed RMB1.0 million;

(e) shall not terminate or procure the management of the Target College to terminate any material contract (which includes any agreement under which the amount involved exceeds RMB1.0 million, the Contractual Arrangements and any agreement of similar nature or content to the Contractual Arrangements) or enter into any other contracts which may contradict such material contracts without the prior written consent of Longkou Zhimin;

(f) shall not procure any of the Target College to enter into any transactions which may have an actual impact on the assets, liabilities, operations, equity structures or other legal rights of the Target College without the prior written consent of Longkou Zhimin, save for transactions which are in the ordinary course of business of the Target College with the amount involved not more than RMB1.0 million, or transactions which have been disclosed to and approved by Longkou Zhimin;

(g) shall not agree to or procure the Target College to declare or in substance distribute any distributable school operating income or agree to such distribution without the prior written consent of Longkou Zhimin;

(h) shall not agree to or procure the Target College to amend its articles of association without the prior written consent of Longkou Zhimin;

(i) shall ensure that the Target College does not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by the Target College exceeds RMB1.0 million, obligations which restrict or hinder the due performance of obligations under the Contractual Arrangements by the Target College, obligations which restrict or prohibit the financial or business operations of the Target College, or any obligations which may result in change of the structure of the Target College outside its ordinary course of business without the prior written consent of Longkou Zhimin;

(j) shall use their best endeavours to develop the business of the Target College and ensure compliance with laws and regulations by the Target College, and shall not take or fail to take any action which may prejudice the assets, goodwill or the effectiveness of operational licences of the Target College;

(k) shall, prior to the transfer of their interest to Longkou Zhimin or its designated purchaser and without prejudice to the 1st School Sponsor's and Directors' Rights Entrustment Agreement, execute all documents necessary for holding and maintaining the ownership of its interest in the Target College;

(l) shall sign all documents and take all necessary actions to facilitate transfer of their interest in the Target College to Longkou Zhimin or its designated purchaser;

(m) shall take all such actions to facilitate the Target College in its performance of its obligations under the 1st Exclusive Call Option Agreement if such performance requires any action be taken by Mr. Song and Nanshan Group on behalf of the interest owner of the Target College;

(n) shall, in its capacity as a school sponsor of the Target College and without prejudice to the Contractual Arrangements, procure directors nominated by it to exercise all rights to enable the Target College to perform its rights and obligations under the 1st Exclusive Call Option Agreement, and shall replace any director who fails to do so; and

(o) in the event that the consideration paid by Longkou Zhimin or its designated purchaser for the transfer of the interest in the Target College exceeds RMB0, shall pay such excess amount to Longkou Zhimin or its designated entity.

(4) 1st School Sponsor's and Directors' Rights Entrustment Agreement

The parties to the 1st School Sponsor's and Directors' Entrustment Agreement are (i) Longkou Zhimin, (ii) Mr. Song, (iii) Nanshan Group, (iv) the Target College, and (v) the Appointee(s).

Pursuant to the 1st School Sponsor's and Directors' Rights Entrustment Agreement, Mr. Song and Nanshan Group irrevocably authorise and entrust Longkou Zhimin to exercise all his/its rights as school sponsor of the Target College to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors of the Target College; (b) the right to appoint and/or elect supervisors of the Target College; (c) the right to understand the operation and financial situation of the Target College; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the Target College; (e) the right to acquire residue assets upon liquidation of the Target College in accordance with the laws and the articles of association of the Target College; (f) the right to transfer school sponsor's interest in accordance with the laws; (g) the right to choose to register the Target College as a for-profit or non-profit school pursuant to PRC laws and regulations; (h) the right to exercise the voting rights of Mr. Song and Nanshan Group upon bankruptcy, liquidation, dissolution or termination of the Target College; (i) the right to handle the legal procedures of registration, approval, licensing and filing of the Target College, as the case maybe at the education department, the department of civil affairs or other government regulatory departments, and to submit any documents submitted by Mr. Song and Nanshan Group to relevant government regulatory departments; and (j) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of the Target College as amended from time to time.

Pursuant to the 1st School Sponsor's and Directors' Rights Entrustment Agreement, the directors of the Target College (the "**Appointees**") will irrevocably authorise and entrust Longkou Zhimin to exercise all their rights as directors of the Target College to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representatives of the Appointees; (b) the right to exercise voting rights of the Appointees in respect of all matters discussed and resolved at the board meeting of the Target College; (c) the right to propose to convene interim board meetings of the Target College; (d) the right to sign all board minutes, board resolutions and other legal documents which the Appointees have authority to sign in their capacities as directors of the Target College; (e) the right to instruct the legal representative and financial and business responsible persons of the Target College to act in accordance with the instruction of Longkou Zhimin; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of the Target College; (g) the right to handle the legal procedures of registration, approval and licensing of the Target College at the education department, the department of civil affairs or other government regulatory departments; (h) the right to exercise the voting rights of directors of the Target College upon bankruptcy, liquidation, dissolution or termination of the Target College; and (i) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of the Target College as amended from time to time.

In addition, each of Mr. Song, Nanshan Group and the Appointees will irrevocably agree that (i) Longkou Zhimin may delegate their rights under the 1st School Sponsor's and Directors' Rights Entrustment Agreement to the directors of Longkou Zhimin or its designated person, without prior notice to or approval by Mr. Song, Nanshan Group and the Appointees; and (ii) any person as successor of civil rights of Longkou Zhimin or liquidator by reason of subdivision, merger, liquidation of Longkou Zhimin or other circumstances shall have authority to replace Longkou Zhimin to exercise all rights under the 1st School Sponsor's and Directors' Rights Entrustment Agreement.

(5) Nanshan Group's Powers of Attorney

The Nanshan Group's Powers of Attorney shall be executed by the Nanshan Group.

Pursuant to the Nanshan Group's Powers of Attorney executed by Nanshan Group in favour of Longkou Zhimin, Nanshan Group authorises and appoints Longkou Zhimin, as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of the Target College. For details of the rights granted, please refer to the paragraph headed "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (4) 1st School Sponsor's and Directors' Rights Entrustment Agreement" in this section.

Longkou Zhimin shall have the right to further delegate the rights so delegated to the directors of Longkou Zhimin or other designated persons. Nanshan Group will irrevocably agree that the authorisation appointment in the Nanshan Group's Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Nanshan Group's subdivision, merger, winding up, consolidation, liquidation or other similar events. Nanshan Group's Powers of Attorney shall constitute a part and incorporate terms of the 1st School Sponsor's and Directors' Rights Entrustment Agreement.

(6) Mr. Song's Powers of Attorney

Mr. Song's Powers of Attorney shall be executed by Mr. Song.

Pursuant to the Mr. Song's Powers of Attorney executed by Mr. Song in favour of Longkou Zhimin, Mr. Song authorises and appoints Longkou Zhimin, as his agent to act on his behalf to exercise or delegate the exercise of all his rights as school sponsor of the Target College. For details of the rights granted, please refer to the paragraph headed "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (4) 1st School Sponsor's and Directors' Rights Entrustment Agreement" in this section.

Longkou Zhimin shall have the right to further delegate the rights so delegated to the directors of Longkou Zhimin or other designated persons. Mr. Song will irrevocably agree that the authorisation appointment in the Mr. Song's Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Mr. Song's loss of or restriction on capacity, death or other similar events. Mr. Song's Powers of Attorney shall constitute a part and incorporate terms of the 1st School Sponsor's and Directors' Rights Entrustment Agreement.

(7) 1st Appointee(s)' Powers of Attorney

The 1st Appointee(s)' Powers of Attorney shall be executed by the Appointee(s).

Pursuant to the 1st Appointee(s)' Powers of Attorney to be executed by each of the Appointees in favour of Longkou Zhimin, each of the Appointees will authorise and appoint Longkou Zhimin, as his/her agent to act on his/her behalf to exercise or delegate the exercise of all of his/her rights as directors of the Target College. For details of the rights to be granted, please refer to the paragraph headed "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (4) 1st School Sponsor's and Directors' Rights Entrustment Agreement" in this section.

Longkou Zhimin shall have the right to further delegate the rights so delegated to the directors of Longkou Zhimin or other designated persons. Each of the Appointees will irrevocably agree that the authorisation appointment in the 1st Appointee(s)' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her loss of or restriction on capacity, death or other similar events. The 1st Appointee(s)' Powers of Attorney shall constitute a part and incorporate terms of the 1st School Sponsor's and Directors' Rights Entrustment Agreement.

(8) Receivables Pledge Agreement

The parties to the Receivables Pledge Agreement are (i) Longkou Zhimin, (ii) Mr. Song, (iii) Nanshan Group, and (iv) the Target College.

Pursuant to the Receivable Pledge Agreement, the Target College unconditionally and irrevocably pledges and grants first priority pledge over Longkou Zhimin (i) all its existing and future receivables from boarding fees and tuition fees; (ii) all its existing and future creditor's rights arising from leasing of any movable or immovable properties of the Target College; and (iii) all its existing and future creditor's rights arising from providing services as security for performance of the 1st set of Structured Contracts and all direct, indirect or consequential damages and foreseeable loss of interest incurred by Longkou Zhimin as a result of any event of default on the part of Mr. Song, Nanshan Group and the Target College and all expenses incurred by Longkou Zhimin as a result of enforcement of the obligations of Mr. Song, Nanshan Group and the Target College under the 1st set of Structured Contracts (the "**Secured Indebtedness**").

Pursuant to the Receivables Pledge Agreement, without the prior written consent of Longkou Zhimin, the Target College shall not transfer the receivables or create further pledge or encumbrance over the pledged interest in the receivables. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the interest in the receivables shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by Longkou Zhimin. Mr. Song and Nanshan Group will also waive any pre-emptive rights upon enforcement and will agree to any transfer of the pledged interest pursuant to the Receivables Pledge Agreement.

Any of the following events shall constitute an event of default under the Receivables Pledge Agreement:

(a) the Target College, Mr. Song and/or Nanshan Group commits any breach of any obligations under the Contractual Arrangements;

(b) any representations or warranties or information provided by the Target College, Mr. Song and/or Nanshan Group under the Contractual Arrangements is proved incorrect or misleading; or

(c) any provision in the Contractual Arrangements becomes invalid or incapable of performance due to changes in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon occurrence of an event of default as described above, Longkou Zhimin shall have the right to enforce the Receivables Pledge Agreement by written notice to the Target College in one or more of the following ways:

(a) sell the pledged receivables interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds;

(b) appoint relevant auction parties for the action; and/or

(c) dispose of the pledged receivables interest in other manner subject to applicable laws and regulations.

The pledge under the Receivable Pledge Agreement will be registered with the Credit Reference Centre of the People's Bank of China (中國人民銀行徵信中心) as required by the Receivables Pledge Registration Measures (《應收賬款質押登記辦法》) promulgated by the People's Bank of China and will become effective on the same day of registration.

(9) 1st Spouse Undertakings

The 1st Spouse Undertakings shall be executed by the spouse of Mr. Song.

Pursuant to the 1st Spouse Undertakings, the spouse of Mr. Song irrevocably undertakes that:

(a) the spouse has full knowledge of and has consented to the entering into of the Contractual Arrangements Mr. Song, Longkou Zhimin and the Target College, and in particular, the arrangement as set out in the Contractual Arrangements in relation to the restrictions imposed on the school sponsor's interest in the Target College, pledge or transfer the school sponsor's interest in the Target College, or the disposal of the school sponsor' interest in the Target College in any other forms;

(b) the spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to the Target College;

(c) the spouse authorises Mr. Song or his authorised person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's school sponsor's interest in the Target College in order to safeguard the interest of Longkou Zhimin under the Contractual Arrangements and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(d) any undertaking, confirmation, consent and authorisation under the 1st Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the school sponsor' interest in the Target College;

(e) any undertaking, confirmation, consent and authorisation under the 1st 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; and

(f) all undertakings, confirmations, consents and authorisations under the 1st Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Longkou Zhimin and the spouse of Mr. Song in writing.

The 1st Spouse Undertakings shall have the same term as and incorporate the terms of the 1st Business Cooperation Agreement.

2^{nd} set of Structured Contracts

(1) 2^{nd} Business Cooperation Agreement

The parties to the 2^{nd} Business Cooperation Agreement are (i) Longkou Zhimin, (ii) the Registered Shareholder(s), and (iii) the Target Entities.

Pursuant to the 2^{nd} Business Cooperation Agreement, Longkou Zhimin shall provide technical services, management support and consulting services necessary for the private education business, and in return, the Target Entities shall make payments accordingly.

To ensure the due performance of the Contractual Arrangements, the Target Entities will agree to comply, and procure any of their subordinate entities or units, if any, to comply with, and the Registered Shareholder(s), will agree to procure the Target Entities as well as their subordinate entities or units, if any, to comply with the obligations as prescribed under the 2^{nd} Business Cooperation Agreement, including but not limited to, those set forth as follows:

(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 the Target Entities and the quality and standard of private education;

(b) to prepare school development plans and annual working plans in accordance with the instructions of Longkou Zhimin;

(c) to carry out its private education activities and other relevant business under the assistance of Longkou Zhimin;

(d) to carry out and manage its daily operations and financial management in accordance with the recommendations, advice, principles and other instructions of Longkou Zhimin;

(e) to execute and act upon the recommendations of Longkou Zhimin in terms of employment and removal of senior management and staff;

(f) to adopt the advice, guidance and plans given by Longkou Zhimin in relation to their respective strategic development;

(g) to carry out its business operations and renew and maintain its respective necessary licences; and

(h) to provide its business operation and financial information upon request by Longkou Zhimin and promptly inform Longkou Zhimin of the circumstances which have or may have material adverse effect on the business operation, as well as make every effort to prevent such circumstances and/or the expansion of losses.

In addition, pursuant to the 2nd Business Cooperation Agreement:

(a) the Registered Shareholder(s) undertakes to Longkou Zhimin that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect the exercise of his direct or indirect interest in the Designated School Sponsor, he shall have made all necessary arrangement and sign all necessary documents such that his 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 enforcement of the Contractual Arrangements;

(b) in the event of the dissolution, liquidation, bankruptcy or reorganisation of Longkou Zhimin, (i) the Registered Shareholder(s) and the Target Entities unconditionally agree that, other persons designated by the Company shall inherit the rights and obligations of Longkou Zhimin under the Contractual Arrangements, and sign all necessary documents in addition to all necessary measures to make sure all the aforementioned rights and obligations can be taken over smoothly by the designated persons; (ii) the Registered Shareholder(s) agrees that, he shall sell or deposit his interest in the Designated School Sponsor in accordance with the instructions of the Company and transfer 70% of receivable at nil consideration to the Company or other persons designated by the Company; or (iii) the Registered Shareholder(s) agrees that, he shall sell or deposit assets of the Target Entities in accordance with the instructions of the Company and transfer 70% of receivable at nil consideration to the Company or other persons designated by the Company;

(c) in the event of the dissolution or liquidation of the Target Entities, (i) the Registered Shareholder(s) undertakes that Longkou Zhimin and/or its designated person shall have the right to exercise all rights of the school sponsors of the Target College and/or the shareholder of the Designated School Sponsor on behalf of the Designated School Sponsor/the Registered Shareholder(s) (including but not limited to, deciding to dissolve and liquidate the Target Entities, instructing and delegating the liquidation group and/or its agent of the Target Entities, as well as approving liquidation plan and report); (ii) the Registered Shareholder(s) and/or the Designated School Sponsor shall transfer 70% of assets received or receivable in its capacity as school sponsor of the Target College and/or shareholder of the Designated School Sponsor as a result of the dissolution or liquidation of the Target Entities to Longkou Zhimin or other persons designated by the Company at nil consideration, and instruct the Target Entities to transfer such assets directly to Longkou Zhimin or other persons designated by the Company before such dissolution or liquidation; and (iii) if consideration is required for such transfer under the then applicable PRC laws, then Mr. Song and/or the Designated School Sponsor shall compensate Longkou Zhimin and/or the person as designated by the Company 70% of such amount;

(d) the Target Entities agree that, without the prior written consent of Longkou Zhimin, the Target Entities shall not declare or pay to the Registered Shareholder(s) any school operating income or other interest or benefit. In the event that the Registered Shareholder(s) receives any school operating income or other interest or benefit from the Target Entities, upon the request of Longkou Zhimin, he shall unconditionally and without compensation transfer 70% of such amount to Longkou Zhimin; and

(e) without the consent of Longkou Zhimin, the Registered Shareholder(s) shall not increase the registered capital of the Designated School Sponsor, while the Registered Shareholder(s) shall agree and confirm that, he will pledge the corresponding increased equity interest to Longkou Zhimin to perform his respective obligations and guarantees in respect of any debt under these Contractual Arrangements. Each of the parties will undertake that, each party shall prepare all necessary documents before the aforesaid capital increase and sign the equity pledge agreements on the date of completion of the capital increase registration, and complete the equity pledge registration procedures as soon as possible.

In order to prevent the leakage of assets and values of the Target Entities, the Registered Shareholder(s) and the Target Entities will undertake that, without the prior written consent of Longkou Zhimin or its designated person, the Registered Shareholder(s) and the Target Entities shall not conduct or cause to conduct any activity or transaction which may have any actual impact (i) on the assets, business, staff, obligations, rights or operations of the Target Entities or (ii) on the ability of the Registered Shareholder(s) and the Target Entities to perform the obligations under the Contractual Arrangements. Such activities and transactions include, without limitation:

(a) establishment of any subordinate entities or units by the Target Entities;

(b) conduct of any activity by any of the Target Entities and/or their subordinate entities or units which are outside the ordinary course of business or change the mode of operations of the Target Entities or any of their subordinate entities or units;

(c) consolidation, subdivision, change of form of corporate organisation, dissolution or liquidation of the Target Entities and/or any of their subordinate entities or units;

(d) providing any borrowing, loan or guarantee and inheritance in respect of any debt to, or obtaining any borrowing and loan from, the Target Entities or any of their subordinate entities or units;

(e) providing any borrowing, loan or guarantee in respect of any debt, or obtaining any borrowing and loan by the Target Entities or any of their subordinate entities or units to any third party, except in the ordinary course of business and provided that the amount of such debt is less than RMB1.0 million;

(f) change or removal of any director, supervisor or senior management (including but not limited to manager, deputy manager, chief financial officer, chief technical officer, principal and dean) of any of the Target Entities or any of their subordinate entities or units, increase or decrease of their remuneration package, or change of their appointment terms and conditions;

(g) sale, transfer, lending or authorising the use or disposal of any assets or rights (including but not limited to domain, trademark, intellectual property and exclusive technology) of any of the Target Entities or any of their subordinate entities or units to any third party other than Longkou Zhimin or its designated party, or purchase from any third party any assets or rights, except in the ordinary course of business and provided that the transaction amount is less than RMB1.0 million;

(h) sale of any equity interest or school sponsor rights in any of the Target Entities or any of their subordinate entities or units to any third party other than Longkou Zhimin or its designated party, or increase or reduction of the registered capital or change of the structure of the equity or school sponsor's interest of any of the Target Entities and/or their subordinate entities or units or enter into partnership, joint venture or profit-sharing arrangements, or any other arrangements to transfer benefits or realise profit-sharing in the form of usage fees, service charges or consultancy fees;

(i) providing security over equity interest and/or school sponsor's interest in or assets or rights of, or creating encumbrance over equity and/or school sponsor's interest in or assets of any of the Target Entities or any of their subordinate entities or units to third parties other than Longkou Zhimin or its designated party;

(j) altering, amending or revoking any permits of any of the Target Entities or any of their subordinate entities or units;

(k) amending the articles of association or scope of business of any of the Target Entities or any of their subordinate entities or units;

(l) change of any normal business procedures or amendment of any internal procedures and system of any of the Target Entities and/or their subordinate entities or units;

(m) entering into any business contracts outside the ordinary course of business of the Target Entities or any of their subordinate entities or units except pursuant to the plan or suggestion of Longkou Zhimin or the Company;

(n) distribution of dividend, school operating income or other payments to the Target Entities or any of their subordinate entities or units, or the shareholder(s) of the Target Entities and/or their subordinate entities or units, or the school sponsors;

(o) carrying out any activity which has or may have an adverse effect on the daily operations, business or assets of any of the Target Entities or any of their subordinate entities or units or their ability to make any payment to Longkou Zhimin;

(p) entering into any transaction which has or may have an adverse effect on the transactions contemplated under the Contractual Arrangements; and

(q) transfer of his/its rights and obligations under the Contractual Arrangements to any third party other than Longkou Zhimin or its designated party, or establishment and commencement of any cooperation or business relationship similar to that under the Contractual Arrangements with any third party by the Registered Shareholder(s) and the Target Entities or any of their subordinate entities or units.

Furthermore, the Registered Shareholder(s) will undertake to Longkou Zhimin that, unless with the prior written consent of Longkou Zhimin, the Registered Shareholder(s) shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with the Target Entities and any of their subordinate entities or units ("**Competing Business of the Target Entities**"), (ii) use information obtained from the Target Entities and/or any of their subordinate entities or units for the Competing Business of the Target Entities, and (iii) obtain any benefit from any Competing Business of the Target Entities. The Registered Shareholder(s) will further consent and agree that, in the event that he directly or indirectly engages, participates in or conduct any Competing Business of the Target Entities, Longkou Zhimin and/or other entities as designated by the Company shall be granted an option to require the entity engaging in the Competing Business of the Target Entities to enter into an arrangement similar to that of the Contractual Arrangements. If Longkou Zhimin does not exercise such option, the Registered Shareholder(s) shall cease the operation of the Competing Business of the Target Entities within a reasonable time.

(2) 2nd Exclusive Technical Service and Management Consultancy Agreement

The parties to the 2nd Exclusive Technical Service and Management Consultancy Agreement are (i) Longkou Zhimin, and (ii) the Target Entities.

Pursuant to the 2nd Exclusive Technical Service and Management Consultancy Agreement, Longkou Zhimin will agree to provide exclusive technical services to the Target Entities, including but not limited to, (a) design, development, update and maintenance of educational software for computer and mobile devices; (b) design, development, update and maintenance of webpages and websites necessary for the education activities of the Target College; (c) design, development, update and maintenance of management information systems necessary for the education activities of the Target Entities; (d) provision of other technical support necessary for the education activities of the Target Entities; (e) provision of technical consulting services; (f) provision of technical training; (g) engaging technical staff to provide on-site technical support; and (h) providing other technical services reasonably requested by the Target Entities.

Furthermore, Longkou Zhimin will agree to provide exclusive management consultancy services to the Target Entities, including but not limited to, (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimisation on annual budget; (h) advising on design of internal structures and internal management; (i) provision of administrative staff management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) building of online and offline marketing network; and (m) providing other management technical services reasonably requested by the Target Entities.

In consideration of the technical and management consultancy services provided by Longkou Zhimin, the Target Entities will agree to pay Longkou Zhimin a service fee equal to 70.0% of its amount of surplus from operations (after deducting all costs, taxes, and other fees to be reserved or deducted as required by the relevant PRC laws and regulations) which shall be determined by Longkou Zhimin with reference to factors including (i) complexity and difficulty of technologies involved in the services provided by Longkou Zhimin; (ii) resources invested and time spent by employees of Longkou Zhimin for the provision of relevant services; (iii) content and commercial value of the services provided; (iv) market price of services provided; and (v) business operation of the Target Entities as the service recipients.

Pursuant to the 2nd Exclusive Technical Service and Management Consultancy Agreement, unless otherwise prescribed under the PRC laws and regulations, Longkou Zhimin 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 Longkou Zhimin to the Target Entities, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the 2nd Exclusive Technical Service and Management Consultancy Agreement and/or any other agreements entered into between Longkou Zhimin and other parties. To the extent prescribed under the PRC laws and regulations, the intellectual properties, which are restricted or prohibited from owning by Longkou Zhimin, shall be owned by the Target Entities until permissible under the PRC laws and regulations. The Target Entities shall transfer the aforesaid intellectual properties at the lowest consideration permissible under the PRC laws and regulations to Longkou Zhimin in addition to assist with the registration procedures.

Without the written consent of Longkou Zhimin, the Target Entities shall not make (i) any disposal of material assets and (ii) changes to the current ownership structure of the Target Entities. The Target Entities shall not enter into transactions, which may materially affect their assets, responsibilities, business operation, ownership structures, equity interest held by third parties and other legal rights, outside their ordinary course of business without the prior disclosure and written consent of Longkou Zhimin.

(3) 2nd Exclusive Call Option Agreement

The parties to the 2nd Exclusive Call Option Agreement are (i) Longkou Zhimin, (ii) the Target Entities, and (iii) the Registered Shareholder(s).

Under the 2nd Exclusive Call Option Agreement, the Registered Shareholder(s) will irrevocably grant Longkou Zhimin or its designated purchaser the exclusive right to purchase not more than 70% of his direct and/or indirect equity/school sponsor's interest in the Target Entities (the "**2nd Interests Call Option**"). The purchase price payable by Longkou Zhimin in respect of the transfer of such interest upon exercise of the 2nd Interests Call Option shall be the lowest price permitted under the PRC laws and regulations. Longkou Zhimin or its designated purchaser shall have the right to purchase such proportion of the direct and/or indirect interest in the Target Entities as it decides at any time. The Registered Shareholder(s) shall bear the taxes arising from the transfer of interest in the Target Entities unless the applicable laws and regulations explicitly require that such taxes be borne by Longkou Zhimin or its designated purchaser.

In the event that PRC laws and regulations allow Longkou Zhimin or other foreign-owned entities designated by the Company to directly hold all or part of the school sponsor's interest in the Target Entities as well as to operate private education business in the PRC, Longkou Zhimin shall issue the notice of exercise of the 2^{nd} Interests Call Option as soon as practicable, and the percentage of the 2^{nd} Interests Call Option shall not be lower than the maximum percentage then allowed to be held by Longkou Zhimin or other foreign-owned entities designated by the Company under PRC laws and regulations.

The Registered Shareholder(s) will further undertake to Longkou Zhimin that, he:

(a) shall not sell, assign, transfer or otherwise dispose of or create encumbrance over his interest in the Target Entities without the prior written consent of Longkou Zhimin;

(b) shall not increase or reduce or agree to the increase or reduction of capital investment in the Target Entities without the prior written consent of Longkou Zhimin;

(c) shall not agree to or procure the Target Entities to divide into or merge with other entities without the prior written consent of Longkou Zhimin;

(d) shall not dispose of or procure the management of the Target Entities to dispose of, or create encumbrance over any of the assets of the Target Entities without the prior written consent of Longkou Zhimin, except in the ordinary course of business and provided that the value of such assets so disposed shall not exceed RMB1.0 million;

(e) shall not terminate or procure the management of the Target Entities to terminate any material contract (which includes any agreement under which the amount involved exceeds RMB1.0 million, the Contractual Arrangements and any agreement of similar nature or content to the Contractual Arrangements) or enter into any other contracts which may contradict such material contracts without the prior written consent of Longkou Zhimin;

(f) shall not procure the Target Entities to enter into any transactions which may have an actual impact on the assets, liabilities, operations, equity structures or other legal rights of the Target Entities without the prior written consent of Longkou Zhimin, save for transactions which are in the ordinary course of business of the Target Entities with the amount involved not more than RMB1.0 million, or transactions which have been disclosed to and approved by Longkou Zhimin;

(g) shall not agree to or procure the Target Entities to declare or in substance distribute any distributable school operating income or agree to such distribution without the prior written consent of Longkou Zhimin;

(h) shall not agree to or procure the Target Entities to amend their articles of association without the prior written consent of Longkou Zhimin;

(i) shall ensure that the Target Entities do not provide or obtain loans or provide any guarantees or otherwise undertake any other action to guarantee, or undertake any material obligations (including obligations under which the amount payable by the Target Entities exceeds RMB1.0 million, obligations which restrict or hinder the due performance of obligations under the Contractual Arrangements by the Target Entities, obligations which restrict or prohibit the financial or business operations of the Target Entities, or any obligations which may result in change of the structure of the Target Entities outside their ordinary course of business without the prior written consent of Longkou Zhimin;

(j) shall use his best endeavours to develop the business of the Target Entities as well as to ensure compliance with laws and regulations by the Target Entities, and shall not take or fail to take any action which may prejudice the assets, goodwill or the effectiveness of operational licences of the Target Entities;

(k) shall, prior to the transfer of his interest to Longkou Zhimin or its designated purchaser and without prejudice to the 2nd School Sponsor's and Directors' Rights Entrustment Agreement, execute all documents necessary for holding and maintaining the ownership of his interest in the Target Entities;

(l) shall sign all documents and take all necessary actions to facilitate transfer of his interest in the Target Entities to Longkou Zhimin or its designated purchaser;

(m) shall take all such actions to facilitate the Target Entities in their performance of their obligations under the 2nd Exclusive Call Option Agreement if such performance requires any action be taken by the Target Entities on behalf of the interest owner of the Target Entities;

(n) shall, in his capacity as a school sponsor of the Target College as well as shareholder of the Designated School Sponsor and without prejudice to the Contractual Arrangements, procure directors nominated by it to exercise all rights to enable the Target College to perform its rights and obligations under the 2nd Exclusive Call Option Agreement, and shall replace any director who fails to do so; and

(o) in the event that the consideration paid by Longkou Zhimin or its designated purchaser for the transfer of all or part of the interest in the Target Entities exceeds RMB0, shall pay such excess amount to Longkou Zhimin or its designated entity.

(4) Shareholders' Rights Entrustment Agreement

The parties to the Shareholders' Rights Entrustment Agreement are (i) Longkou Zhimin, (ii) the Registered Shareholder(s), and (iii) the Designated School Sponsor.

Pursuant to the Shareholders' Rights Entrustment Agreement, the Registered Shareholder(s) will irrevocably authorise and entrust Longkou Zhimin to exercise all of his respective rights as shareholder of the Designated School Sponsor to the extent permitted by the PRC laws. These rights include, but are not limited to:

(a) the right to attend shareholders' meetings of the Designated School Sponsor, as the case may be;

(b) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting of the Designated School Sponsor, as the case may be;

(c) the right to propose to extraordinary general meetings of the Designated School Sponsor, as the case may be;

(d) the right to sign all shareholders' resolutions and other legal documents which the Registered Shareholder(s) has authority to sign in his capacity as shareholder of the Designated School Sponsor, as the case may be;

(e) the right to instruct the directors and legal representative of the Designated School Sponsor, as the case may be to act in accordance with the instruction of Longkou Zhimin;

(f) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of the Designated School Sponsor, as the case may be;

(g) the right to handle the legal procedures of registration, approval, licensing and filing of the Designated School Sponsor, as the case may be at the Administration of Industrial and Commerce department or other government regulatory departments;

(h) the right to transfer or dispose in other ways the equity interest held by the Registered Shareholder(s) in the Designated School Sponsor; and

(i) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of the Designated School Sponsor as amended from time to time.

In addition, the Registered Shareholder(s) will irrevocably agree that (i) Longkou Zhimin may delegate his rights under the Shareholders' Rights Entrustment Agreement to its directors or its designated person, without prior notice to or approval by the Registered Shareholder(s); and (ii) any person as successor of civil rights of Longkou Zhimin or liquidator by reason of subdivision, merger, liquidation of Longkou Zhimin or other circumstances shall have authority to replace Longkou Zhimin to exercise all rights under the Shareholders' Rights Entrustment Agreement.

(5) Equity Pledge Agreement

The parties to the Equity Pledge Agreement are (i) Longkou Zhimin, (ii) the Registered Shareholder(s), and (iii) the Designated School Sponsor.

Pursuant to the Equity Pledge Agreement, the Registered Shareholder(s) will unconditionally and irrevocably pledge and grant first priority security interests over all of his equity interest in the Designated School Sponsor, accordingly, together with all related rights thereto to Longkou Zhimin as security for performance of the Contractual Arrangements and all direct, indirect or consequential damages and foreseeable loss of interest incurred by Longkou Zhimin as a result of any event of default on the part of the Registered Shareholder(s) and the Target Entities and all expenses incurred by Longkou Zhimin as a result of enforcement of the obligations of the Registered Shareholder(s) and the Target Entities under the Contractual Arrangements (the "**Secured Indebtedness B**").

Without the prior written consent of Longkou Zhimin, the Registered Shareholder(s) shall not transfer the equity interest or create further pledge or encumbrance over the pledged equity interest. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the equity interest belong to Longkou Zhimin and Longkou Zhimin can request the proceeds to be paid directly to it. The Registered Shareholder(s) will also waive any pre-emptive rights upon enforcement and agree to any transfer of the pledged equity pursuant to the Equity Pledge Agreement.

Each party will undertake that, if the registration authorities require to define the amount of the principal claim upon the pledge range in the equity pledge registration, the amount of claims under the Contractual Arrangements shall be the amount as approved by the registration authorities and any other amount in the event of default and compensation under the Contractual Arrangements.

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

(a) the Registered Shareholder(s) or the Target Entities commits any breach of any obligations under the Contractual Arrangements;

(b) any representations or warranties or information provided by the Registered Shareholder(s) or the Target Entities under the Contractual Arrangements is proved incorrect or misleading; or

(c) any provision in the Contractual Arrangements becomes invalid or incapable of performance due to changes in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, Longkou Zhimin shall have the right to enforce the Equity Pledge Agreement by written notice to the Registered Shareholder(s) in one or more of the following ways:

(a) to the extent permitted under PRC laws and regulations, Longkou Zhimin may request the Registered Shareholder(s) to transfer 70% of his equity interest in the Designated School Sponsor to any entity or individual designated by Longkou Zhimin at the lowest consideration permissible under the PRC laws and regulations, while the Registered Shareholder(s) will irrevocably undertake that in the event that the consideration paid by Longkou Zhimin or its designated purchaser for the transfer of all or part of the equity interest in the Designated School Sponsor exceeds RMB0, shall pay such excess amount to Longkou Zhimin or its designated entity;

(b) sell the pledged equity interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds;

(c) dispose of the pledged equity interest in other manner subject to applicable laws and regulations.

(6) 2nd School Sponsor's and Directors' Rights Entrustment Agreement

The parties to the 2nd School Sponsor's and Directors' Entrustment Agreement are (i) Longkou Zhimin, (ii) the Designated School Sponsor, (iii) the Target College, and (iv) the Appointee(s).

Pursuant to the 2nd School Sponsor's and Directors' Rights Entrustment Agreement, the Designated School Sponsor will irrevocably authorise and entrust Longkou Zhimin to exercise all its rights as school sponsor of the Target College to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors of the Target College; (b) the right to appoint and/or elect supervisors of the Target College; (c) the right to understand the operation and financial situation of the Target College; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the Target College in accordance with the law; (e) the right to acquire the Designated School Sponsor's share of profit in accordance with the law, if any, or the right to acquire the residue balance from the Target College's operation in accordance with the law and the articles of association of the Target College; (f) the right to acquire residue assets upon liquidation of the Target College in accordance with the laws; (g) the right to transfer the Designated School Sponsor's interest in accordance with the laws; (h) the right to choose to register the Target College as a for-profit or non-profit school pursuant to PRC laws and regulations; (i) the right to exercise the voting rights of the Designated School Sponsor upon bankruptcy, liquidation, dissolution or termination of the Target

College; (j) the right to handle the legal procedures of registration, approval, licensing and filing of the Target College, as the case maybe at the education department, the department of civil affairs or other government regulatory departments, and to submit any documents submitted by the Designated School Sponsor to the relevant government regulatory departments; and (k) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of the Target College as amended from time to time.

Pursuant to the 2nd School Sponsor's and Directors' Rights Entrustment Agreement, the directors of the Target College, who will be appointed by the Designated School Sponsor, (the "**2nd Appointees**") will irrevocably authorise and entrust Longkou Zhimin to exercise all their rights as directors of the Target College to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representatives of the 2nd Appointees; (b) the right to exercise voting rights of the 2nd Appointees in respect of all matters discussed and resolved at the board meeting of the Target College; (c) the right to propose to convene interim board meetings of the Target College; (d) the right to sign all board minutes, board resolutions and other legal documents which the 2nd Appointees have authority to sign in their capacities as directors of the Target College; (e) the right to instruct the legal representative and financial and business responsible persons of the Target College to act in accordance with the instruction of Longkou Zhimin or its directors or its designated person; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of the Target College; (g) the right to handle the legal procedures of registration, approval and licensing of the Target College at the education department, the department of civil affairs or other government regulatory departments; (h) the right to exercise the voting rights of directors of the Target College upon bankruptcy, liquidation, dissolution or termination of the Target College; and (i) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of the Target College as amended from time to time.

In addition, the Designated School Sponsor and the 2nd Appointees will irrevocably agree that (i) Longkou Zhimin may delegate its rights under the 2nd School Sponsor's and Directors' Rights Entrustment Agreement to the directors of Longkou Zhimin or its designated person, without prior notice to or approval by the Designated School Sponsor and the 2nd Appointees; and (ii) any person as successor of civil rights of Longkou Zhimin or liquidator by reason of subdivision, merger, liquidation of Longkou Zhimin or other circumstances shall have authority to replace Longkou Zhimin to exercise all rights under the 2nd School Sponsor's and Directors' Rights Entrustment Agreement.

(7) The Designated School Sponsor's Powers of Attorney

The Designated School Sponsor's Powers of Attorney shall be executed by the Designated School Sponsor.

Pursuant to the Designated School Sponsor's Powers of Attorney executed by the Designated School Sponsor in favour of Longkou Zhimin, the Designated School Sponsor will authorise and appoint Longkou Zhimin, as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of the Target College. For details of the rights granted, please refer to the paragraph headed "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (6) 2nd School Sponsor's and Directors' Rights Entrustment Agreement" in this section.

Longkou Zhimin shall have the right to further delegate the rights so delegated to its directors or other designated persons. The Designated School Sponsor will irrevocably agree that the authorisation appointment in the Designated School Sponsor's Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of the Designated School Sponsor's subdivision, merger, winding up, consolidation, liquidation or other similar events. The Designated School Sponsor's Powers of Attorney shall constitute a part and incorporate terms of the 2nd School Sponsor's and Directors' Rights Entrustment Agreement.

(8) 2nd Appointee(s)' Power of Attorney

The 2nd Appointee(s)' Powers of Attorney shall be executed by the 2nd Appointee(s).

Pursuant to the 2nd Appointee(s)' Powers of Attorney to be executed by each of the 2nd Appointees in favour of Longkou Zhimin, each of the 2nd Appointees will authorise and appoint Longkou Zhimin, as his/her agent to act on his/her behalf to exercise or delegate the exercise of all of his/her rights as directors of the Target College. For details of the rights to be granted, please refer to the paragraph headed "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (6) 2nd School Sponsor's and Directors' Rights Entrustment Agreement" in this section.

Longkou Zhimin shall have the right to further delegate the rights so delegated to its directors or other designated persons. Each of the 2nd Appointees will irrevocably agree that the authorisation appointment in the 2nd Appointee(s)' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her loss of or restriction on capacity, death or other similar events. The 2nd Appointee(s)' Powers of Attorney shall constitute a part and incorporate terms of the 2nd School Sponsor's and Directors' Rights Entrustment Agreement.

(9) 2nd Spouse Undertakings

The 2nd Spouse Undertakings shall be executed by the spouse of the Registered Shareholder(s).

Pursuant to the 2nd Spouse Undertakings, the spouse of the Registered Shareholder(s) will irrevocably undertake that:

(a) the spouse has full knowledge of and has consented to the entering into of the Contractual Arrangements involving the Registered Shareholder(s), Longkou Zhimin, the Target Entities, and in particular, the arrangement as set out in the Contractual Arrangements in relation to the restrictions imposed on the direct and/or indirect shareholding interest in and/or school sponsor's interest in the Target Entities, pledge or transfer the shareholding interest in and/or school sponsor's interest in the Target Entities, or the disposal of the shareholding interest in and/or school sponsor' interest in the Target Entities in any other forms;

(b) the spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to the Target Entities;

(c) the spouse authorises the Registered Shareholder(s) and/or his authorised person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to direct and/or indirect shareholding interest and/or the spouse's school sponsor's interest in the Target Entities in order to safeguard the interest of Longkou Zhimin under the Contractual Arrangements and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(d) any undertaking, confirmation, consent and authorisation under the 2nd Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct and/or indirect shareholding interest and/or school sponsor' interest in the Target Entities;

(e) any undertaking, confirmation, consent and authorisation under the 2nd 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; and

(f) all undertakings, confirmations, consents and authorisations under the 2nd Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Longkou Zhimin and the spouse of the Registered Shareholder(s) in writing.

The 2nd Spouse Undertakings shall have the same term as and incorporate the terms of the 2nd Business Cooperation Agreement.

(10) The Registered Shareholder(s)' Powers of Attorney

The Registered Shareholder(s)' Powers of Attorney shall be executed by the Registered Shareholder(s).

Pursuant to the Registered Shareholder(s)' Powers of Attorney executed by the Registered Shareholder(s) in favour of Longkou Zhimin, the Registered Shareholder(s) will authorise and appoint Longkou Zhimin, as his agent to act on his behalf to exercise or delegate the exercise of all rights as a shareholder of the Designated School Sponsor. For details of the rights granted, please refer to the paragraph headed "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (6) 2nd School Sponsor's and Directors' Rights Entrustment Agreement" of this section.

Longkou Zhimin shall have the right to further delegate the rights so delegated to its directors or other designated persons. The Registered Shareholder(s) will irrevocably agree that the authorisation appointment in the Registered Shareholder(s)' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of the Registered Shareholder(s)' loss of or restriction on capacity, death or other similar events. The Registered Shareholder(s)' Powers of Attorney shall constitute a part and incorporate terms of the 2nd School Sponsor's and Directors' Rights Entrustment Agreement.

Under the 1st set of Structured Contracts, there is no equity pledge arrangement between Longkou Zhimin and Mr. Song over the school sponsor's interest in the Target College held by Mr. Song. As advised by the PRC Legal Advisers, if the Group is to make an equity pledge arrangement with Mr. Song where Mr. Song pledges his school sponsor' interest in the Target College in favour of the Group, such arrangement would be unenforceable under PRC laws and regulations given that school sponsor' interests in schools are not pledgeable under PRC laws and any equity pledge arrangements with respect to Mr. Song's interests in the Target College cannot be registered with the relevant PRC regulatory authorities.

Nevertheless, the Group intends to implement various measures which shall remain in place before the Contractual Arrangements being unwound, with the aim of further enhancing the control over the Target College, in particular:

(a) as disclosed above, pursuant to the 1st Business Cooperation Agreement, Mr. Song and Nanshan Group will undertake that, without prior written consent of Longkou Zhimin or its designated party, he/it shall not conduct or cause to conduct any activity or transaction which may have an actual impact (i) on the assets, business, staff, obligations, rights or operations of the Target College or (ii) on the ability of Mr. Song, Nanshan Group and the Target College to perform the obligations under the Contractual Arrangements. Please refer to "Contractual Arrangements — Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (1) 1st Business Cooperation Agreement" above for details;

(b) as disclosed above, pursuant to the 1st Exclusive Call Option Agreement, Mr. Song and Nanshan Group will further undertake to Longkou Zhimin that he/it shall not sell, assign, transfer or otherwise dispose of or create any encumbrance over its school sponsor' interest in the Target College without prior written consent of Longkou Zhimin. Please refer to "Contractual Arrangements — Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (3) 1st Exclusive Call Option Agreement" above for details; and

(c) the Company will take measures to ensure that the company seals of the Target College are properly secured, are within the full control of the Company and cannot be used by the Target College, Mr. Song or Nanshan Group without the Group's permission. Such measures include arranging for the company seals of the Target College to be kept in the safe custody of the finance department of Longkou Zhimin 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 authorisation of the Company or Longkou Zhimin.

(11) Non-competition Undertaking of Mr. Song

Mr. Song shall execute the non-competition undertaking.

Pursuant to the terms of the non-competition undertaking, Mr. Song undertakes that, among others, unless with the prior written consent of Longkou Zhimin, he shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any Competing Business of the Target Entities, (ii) use information obtained from the Target Entities and/or any of their subordinate entities or units for the Competing Business of the Target Entities, and (iii) obtain any benefit from any Competing Business of the Target Entities.

Mr. Song also consents and agrees that, in the event that he directly or indirectly, engages, participates in or conducts any Competing Business of the Target Entities, Longkou Zhimin and/or other entities as designated by the Company shall be granted an option to require the entity engaging in the Competing Business of the Target Entities to enter into an arrangement similar to that of the Contractual Arrangements. If Longkou Zhimin and/or other entities as designated by the Company do not exercise such option, Mr. Song shall cease the operation of the Competing Business of the Target Entities within a reasonable time.

The non-competition undertaking shall have the same term as the 2nd Business Cooperation Agreement.

(12) Non-competition Undertaking of Nanshan Group

Nanshan Group shall execute the non-competition undertaking.

Pursuant to the terms of the non-competition undertaking, Nanshan Group undertakes that, among others, unless with the prior written consent of Longkou Zhimin, it shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any Competing Business of the Target Entities, (ii) use information obtained from the Target Entities and/or any of their subordinate entities or units for the Competing Business of the Target Entities, and (iii) obtain any benefit from any Competing Business of the Target Entities.

Nanshan Group also consents and agrees that, in the event that it directly or indirectly, engages, participates in or conducts any Competing Business of the Target Entities, Longkou Zhimin and/or other entities as designated by the Company shall be granted an option to require the entity engaging in the Competing Business of the Target Entities to enter into an arrangement similar to that of the Contractual Arrangements. If Longkou Zhimin and/or other entities as designated by the Company do not exercise such option, Nanshan Group shall cease the operation of the Competing Business of the Target Entities within a reasonable time.

The non-competition undertaking shall have the same term as the 2nd Business Cooperation Agreement.

DISPUTE RESOLUTION

Each of the Structured Contracts provides that:

(a) any dispute, controversy or claim arising out of or in connection with the performance, interpretation, breach, termination or validity of the Structured Contracts shall be resolved through negotiation after one party delivers to the other parties a written negotiation request setting out the specific statements of the disputes or claims;

(b) if the parties are unable to settle the dispute within 30 days of delivery of such written negotiation request, any party shall have the right to refer the dispute to and have the dispute finally resolved by arbitration administered by the China International Economic and Trade Arbitration Commission, the PRC under the prevailing effective arbitration rules thereof. The results of the arbitration shall be final and binding on all relevant parties;

(c) the China International Economic and Trade Arbitration Commission shall have the right to award remedies over the equity interest in the Designated School Sponsor, the school sponsorship interest in the Target College and property interest and other assets of the Target Entities, impose injunctive relief (for the conduct of business or to compel the transfer of assets), or order the dissolution or winding up of the Target 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 the Company and the Target 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, the PRC Legal Advisers advised 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 assets of or the school sponsor's interest in the Target College or equity interest in the Designated School Sponsor in case of disputes. As such, these remedies may not be available to the Group under PRC laws;

(b) further, under the PRC laws, courts or judicial authorities in the PRC generally would not award remedies over the shares and/or assets of the Designated School Sponsor or the Target College, injunctive relief or winding-up of the Designated School Sponsor or the Target College as interim remedies, before there is any final outcome of arbitration or judgement;

(c) however, the PRC laws do not disallow the arbitral body to give award of transfer of assets of or an equity interest in the Designated School Sponsor and school sponsor's interest in the Target College at the request of arbitration applicant. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support such award of the arbitral body when deciding whether to take enforcement measures;

(d) in addition, interim remedies or enforcement orders granted by overseas courts such as Hong Kong and the Cayman Islands may not be recognisable or enforceable in the PRC; therefore, in the event the Group is unable to enforce the Structured Contracts, the Group may not be able to exert effective control over the Designated School Sponsor and the Target College, and the ability to conduct the 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 Contractual Arrangements.

As a result of the above, in the event that any of the Target College, the Designated School Sponsor, Mr. Song or the Registered Shareholders breaches any of the Contractual Arrangements, the Group may not be able to obtain sufficient remedies in a timely manner, or at all, and the ability to exert effective control over the Target College and/or the Designated School Sponsor and conduct the business could be materially and adversely affected. Please refer to the section headed "Risk Factors Relating to the Target College — Risks Relating to the Contractual Arrangements" in this circular for details.

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

As disclosed above, pursuant to the 1st Spouse Undertakings and the 2nd Spouse Undertakings, the spouse of the Mr. Song and the relevant Registered Shareholders irrevocably undertake that the spouse authorises Mr. Song and/or the respective Registered Shareholders and/or their respective authorised person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the interest of Mr. Song and/or the Registered Shareholders in the Target College and/or the Designated School Sponsor in order to safeguard the interest of Longkou Zhimin under the Contractual Arrangements and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures and any undertaking, confirmation, consent and authorisation under the 1st Spouse Undertakings and the 2nd 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 refer to "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (9) 1st Spouse Undertakings" and "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (9) 2nd Spouse Undertakings" above for details.

In addition, as disclosed above, pursuant to the 1st Business Cooperation Agreement and the 2nd Business Cooperation Agreement, Mr. Song and the Registered Shareholders undertake to Longkou Zhimin that, in the event of death, loss of or restriction on capacity, divorce or other circumstances which may affect their respective interest in the Target College and the Designated School Sponsor (where applicable), (1) his or her respective successor shall observe all the rights and assume all the obligations contemplated under the

1^{st} Business Cooperation Agreement and the 2^{nd} Business Cooperation Agreement (where applicable); (2) unless prior consent has been obtained from Longkou Zhimin, the 1^{st} Business Cooperation Agreement and the 2^{nd} Business Cooperation Agreement shall prevail over any testaments, divorce agreements, loan agreements or other legal documents executed in whatever form after the execution of the 1^{st} Business Cooperation Agreement and 2^{nd} Business Cooperation Agreement; and (3) they shall ensure 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 not to commence any lawsuits, arbitration applications or legal proceedings and not to terminate the Contractual Arrangements. Please refer to "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1^{st} set of Structured Contracts — (1) 1^{st} Business Cooperation Agreement" and "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2^{nd} set of Structured Contracts — (1) 2^{nd} Business Cooperation Agreement" above for details.

PROTECTION IN THE EVENT OF DISSOLUTION OR LIQUIDATION OF THE TARGET COLLEGE AND/OR THE DESIGNATED SCHOOL SPONSOR

Pursuant to the 1^{st} Business Cooperation Agreement and the 2^{nd} Business Cooperation Agreement, in the event of the dissolution or liquidation of the Target College and/or the Designated School Sponsor (where applicable), Mr. Song and/or the Registered Shareholders undertake that, among others, Longkou Zhimin and/or its designee shall have the right to exercise all school sponsor's rights on behalf of Mr. Song and the Designated School Sponsor and/or to exercise all shareholders' rights on behalf of the Registered Shareholders and shall instruct all of the Target College and/or the Designated School Sponsor to transfer assets received under PRC laws directly to Longkou Zhimin and/or the designee. Please refer to "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1^{st} Set of Structured Contracts — (9) 1^{st} Spouse Undertakings" and "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2^{nd} set of Structured Contracts — (9) 2^{nd} Spouse Undertakings" above for details.

Furthermore, Longkou Zhimin will irrevocably authorise and entrust to exercise the rights of Mr. Song and the Designated School Sponsor as school sponsor of the Target College and the rights of the Appointees as directors of the Target College and rights of Registered Shareholders as shareholders of the Designated School Sponsor. Please refer to "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1^{st} set of Structured Contracts — (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2^{nd} set of Structured Contracts — (6) 2^{nd} School Sponsor's and Directors' Rights Entrustment Agreement" above for details.

LOSS SHARING

In the event that the Target College and/or the Designated School Sponsor incur any loss or encounters any operational crisis, Longkou Zhimin may, but is not obliged to, provide financial support to the Target College and/or the Designated School Sponsor.

None of the agreements constituting the Contractual Arrangements provide that the Company or its wholly-owned PRC subsidiary, Longkou Zhimin, is obligated to share the losses of the Target College and/or the Designated School Sponsor or provide financial support to the Target College and/or the Designated School Sponsor. Further, the Target College and/or the Designated School Sponsor shall be solely liable for its own debts and losses with assets and properties owned by it.

Under PRC laws and regulations, the Company or Longkou Zhimin, is not expressly required to share the losses of the Target College and/or the Designated School Sponsor or provide financial support to the Target College and/or the Designated School Sponsor. Despite the foregoing, given that the Target College and the Designated School Sponsor's financial condition and results of operations are consolidated into the Group's financial condition and results of operations under the applicable accounting principles, the Company's business, financial condition and results of operations would be adversely affected if the Target College or the Designated School Sponsor suffers losses. However, due to the restrictive provisions contained in the Contractual Arrangements as disclosed in the respective paragraphs headed "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts" and "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts" above, the potential adverse effect on Longkou Zhimin and the Company in the event of any loss suffered from the Target College and/or the Designated School Sponsor 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 the equity interest and school sponsor's interest that the Registered Shareholders (directly and indirectly) hold in the Designated School Sponsor and the Target College by Longkou Zhimin or another party designated by the Company pursuant to the terms of the 1st Exclusive Call Option Agreement and the 2nd Exclusive Call Option Agreement, save for the Equity Pledge Agreement which shall continue to be in force until all obligations thereunder have been performed or all Secured Indebtedness has been repaid in full; (b) Longkou Zhimin shall have the right to terminate the Structured Contracts by serving 30-day prior notice; and (c) the Target College, the Designated School Sponsor, Mr. Song and the Registered Shareholders shall not be entitled to unilaterally terminate the Contractual Arrangements in any situation other than prescribed by the laws.

In the event that PRC laws and regulations allow Longkou Zhimin or the Group to directly hold all or part of the school sponsor's interest in the Target College and/or all or part of the equity interest in the Designated School Sponsor and operate education business in the PRC, Longkou Zhimin shall exercise the 1st Interests Call Option or Equity Call Option as soon as practicable and Longkou Zhimin or its designated party shall purchase such amount of equity interest or school sponsor's interest to the extent permissible under the PRC laws and regulations, and upon exercise in full of the 1st Interests Call Option or Equity Call Option and the acquisition of all the equity interest and/or school sponsor's interest that the Registered Shareholders (directly and indirectly) hold in the Designated School Sponsor and/or the Target College by Longkou Zhimin or another party designated by the Company pursuant to the terms of the 1st Exclusive Call Option Agreement, 2nd Exclusive Call Option Agreement, each of the Structured Contracts shall be automatically terminated.

INSURANCE

The Group does not maintain any insurance policy to cover the risks relating to the Structured Contracts.

ARRANGEMENT TO ADDRESS POTENTIAL CONFLICT OF INTEREST

The Company confirms that appropriate arrangements will be made to address the potential conflict of interests between Mr. Song, Nanshan Group, the Registered Shareholder(s) and/or the Designated School Sponsor (as the case may be) (collectively, the "**Structured Contracts Parties**") on one hand and the Group on the other hand (if any). Pursuant to the 1st Business Cooperation Agreement and the 2nd Business Cooperation Agreement, each of the Structured Contracts Parties shall undertake to Longkou Zhimin that, unless with the prior written consent of Longkou Zhimin, it shall not directly or indirectly engage, participate in, conduct, acquire or hold any Competing Business of the Target College or Competing Business of the Target Entities (as the case may be), and Longkou Zhimin is granted an option to (i) require the entity engaging in such competing business to enter into an arrangement similar to that of the Contractual Arrangements; or (ii) require the entity engaging in such competing business to cease operation. Please refer to the paragraphs headed "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 1st set of Structured Contracts — (1) 1st Business Cooperation Agreement" and "— Operation of the Contractual Arrangements — Summary of the Material Terms of the Contractual Arrangements — 2nd set of Structured Contracts — (1) 2nd Business Cooperation Agreement" in this section for details.

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

PRC Legal Opinions

Based on the above, subject to potential restrictions and conditions stipulated by the laws and regulations to be promulgated from time to time in the future or unless otherwise specified under the Structured Contracts, the PRC Legal Advisers are of the opinion that:

(a) upon the execution of the Structured Contracts, each of the agreements comprising the Contractual Arrangements shall be legal, valid and binding on the parties thereto, the contents of each agreement shall not violate the mandatory provisions of current PRC laws, except in the following cases: under the current PRC laws, the arbitral body does not have the power to grant any injunctive relief, requiring civil entities to act or not to act, therefore the injunctive relief and other temporary relief measures under the Contractual Arrangements may not be legally and effectively enforced under current PRC laws;

(b) the execution and performance of the Contractual Arrangements shall not contravene the provisions that "malicious collusion is conducted to damage others' legitimate rights and interests (惡意串通，損害他人合法權益)" as stipulated in Civil Code of the PRC (《中華人民共和國民法典》).

For details in relation to the risks involved in the Contractual Arrangements, please refer to the section headed "Risk Factors Relating to the Target College — Risks Relating to the Contractual Arrangements" in this circular.

Directors' Views on the Contractual Arrangements

The Company believes that the Contractual Arrangements are narrowly tailored because the Contractual Arrangements are only used to enable the Group to consolidate the financial results of the Target College and the Designated School Sponsor (where applicable) which engage or will engage in the operation of education business, which are subject to foreign investment restriction in accordance with applicable PRC laws and the consultation with the Education Department of Shandong Province.

As at the Latest Practicable Date, as confirmed by the Vendors, both the Vendors and the Target College are not aware of any interference or encumbrance that may be imposed from any governing bodies with respect to the proposed operation of the Target College's business under the Contractual Arrangements, and based on the advice of the PRC Legal Advisers, the Directors are of the view that the Contractual Arrangements will be enforceable under the PRC laws and regulations, except for relevant arbitration provisions, as disclosed in the paragraphs headed "— Dispute Resolution" in this section.

The transactions contemplated under the Contractual Arrangements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. In this connection, the Company has applied and the Stock Exchange has granted a waiver from strict compliance with certain requirements under Chapter 14A of the Listing Rules. For details, please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" in this circular.

CONSOLIDATION OF FINANCIAL RESULTS OF THE TARGET COLLEGE AND THE DESIGNATED SCHOOL SPONSOR

The Directors have discussed with the auditors of the Company and under the prevailing accounting principles of the Company, the Company has the right to consolidate the financial results of the Target Entities in its consolidated accounts if either one set of the Structured Contracts is entered into. According to IFRSs 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 the Company will not directly or indirectly own the Target College and/or the Designated School Sponsor, the Contractual Arrangements as mentioned above will enable the Company to exercise control over the Target College and/or the Designated School Sponsor.

DEVELOPMENT IN THE PRC LEGISLATION ON FOREIGN INVESTMENT

Background of the Foreign Investment Law

On 15 March 2019, the Foreign Investment Law was formally passed by the 13th National People's Congress and took effect on 1 January 2020. The Foreign Investment Law replaced the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises to become the legal foundation for foreign investment in the PRC. On 26 December 2019, the State Council promulgated the Implementation Regulations on the Foreign Investment Law (《外商投資法實施條例》), which came into effect on 1 January 2020.

Impact and Potential Consequences of the Foreign Investment Law and its implementation regulations on the Contractual Arrangements

Conducting operations through contractual arrangements has been adopted by many PRC-based companies to obtain and maintain necessary licences and permits in the industries that are currently subject to foreign investment restrictions or prohibitions in China. The Foreign Investment Law does not explicitly stipulate the contractual arrangements as a form of foreign investment. The Implementation Regulations on the Foreign Investment Law are also silent on whether foreign investment includes contractual arrangements.

For the details of risks relating to the Foreign Investment Law, please refer to the section headed "Risk Factors Relating to the Target College — Risks relating to the Contractual Arrangements — Significant uncertainties exist in relation to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability or sustainability of the Group's current corporate structure, corporate governance and business operations" in this circular.

The Potential Impact to the Company in the Worst Scenario that the Contractual Arrangements Are Not Treated as a Domestic Investment

If the operation of educational institutions is no longer in the Negative List and the Group is allowed to operate the education business under PRC Laws without using the Contractual Arrangements, Longkou Zhimin will exercise the 1st Interests Call Option under the 1st Exclusive Call Option Agreement to acquire the school sponsor's interest of the Target College or the Equity Call Option under the 2nd Exclusive Call Option Agreement to acquire the school sponsor's interest of the Target College and/or the equity interest in the Designated School Sponsor and terminate the Contractual Arrangements subject to re-approval by the relevant authorities.

If the operation of educational institution is in the Negative List, the Contractual Arrangements may be viewed as restricted foreign investment. Although contractual arrangements are not specified as foreign investment under the Foreign Investment Law, the Contractual Arrangements may be regarded as invalid and illegal if the future laws, administrative regulations or provisions prescribed by the State Council define contractual arrangements as a form of foreign investment and the operation of higher education is still in the Negative List. As a result, the Group would not be able to operate the Target Entities through the Contractual Arrangements and the Group would lose its rights to receive the economic benefits of the Target College and/or the Designated School Sponsor. As a result, the financial results of the Target College and the Designated School Sponsor would no longer be consolidated into the Group's financial results and the Group would have to derecognise their assets and liabilities according to the relevant accounting standards. An investment loss would be recognised as a result of such derecognition.

Nevertheless, considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad and contractual arrangements are not specified as foreign investment under the Foreign Investment Law, the Directors are of the view that it is unlikely that the relevant regulations will take retrospective effect to require the relevant enterprises to remove the contractual arrangements.

INTERNAL CONTROL MEASURES TO BE IMPLEMENTED BY THE GROUP

The Structured Contracts contain certain provisions in order to exercise effective control over and to safeguard the assets of the Target Entities.

In addition to the internal control measures as provided in the Structured Contracts, it is the intention of the Company, following the Completion, to implement, through Longkou Zhimin, additional internal control measures against the Target Entities as appropriate, having regard to the internal control measures adopted by the Group from time to time, which may include but not limited to:

Management controls

(a) The Group will appoint at least one representative(s) (the "**Representative(s)**") to the respective board of directors of the Target Entities, and such appointments shall be filed with the relevant administration for market regulation (in the case of the Designated School Sponsor) and the Education Authority and the Department of Civil Affairs of Shandong Province (in the case of the Target College). The Representative(s) is/are required to conduct monthly reviews on the operations of the Target Entities and shall submit the monthly reviews to the Board. The respective Representative(s) is/are also required to check the authenticity of the monthly management accounts of the Target Entities;

(b) The Representative(s) shall establish a team to be nominated by the Group who shall station at the Target Entities and shall be actively involved in various aspects of the daily managerial and operational activities of the Target Entities;

(c) Upon receiving notification of any material events of the Target Entities by the respective Representative, Mr. Song, Nanshan Group and/or the Registered Shareholder(s) must report to the Board or the company secretary of the Company, who must in turn report to the Board as soon as possible;

(d) The financial team of the Company/Representative(s) shall conduct regular site visits to the Target Entities and conduct personnel interviews every six months and submit reports to the Board; and

(e) All seals, chops, incorporation documents and all other legal documents of the Target Entities must be kept at the office of Longkou Zhimin.

Financial controls

(a) The financial team of the Company shall collect monthly management accounts, bank statements and cash balances and major operational data of the Target Entities for review. Upon discovery of any suspicious matters, the financial team of the Company must report to the Board;

(b) If the payment of the service fees from the Target Entities to Longkou Zhimin is delayed, the financial team of the Company must meet with Mr. Song, Nanshan Group and/or the Registered Shareholder(s) to investigate and should report any suspicious matters to the Board;

(c) The Target Entities must submit copies of latest bank statements for every bank account of the Target Entities within 15 days after each month end; and

(d) The Target Entities must assist and facilitate the Company to conduct quarterly on-site internal audit on the Target Entities.

Legal review

(a) The Representative(s) will consult the Company's PRC legal advisers from time to time to check if there are any legal developments in the PRC affecting the Structured Contracts, and should immediately report to the Board so as to allow the Board to determine if any modification or amendment are required to be made; and

(b) The Board shall regularly review and discuss the compliance matters and regulatory enquiries from regulatory authorities in respect of the implementation and performance of the Structured Contracts (if any).

OVERVIEW

The Target College, approved to be upgraded to an undergraduate college from an associate college in 2005 on the basis of Shandong Nanshan Vocational and Technical College* (山東南山職業技術學院) and located in Longkou City, Shandong Province, the PRC (中國山東省龍口市), is a private institution of higher education that provides undergraduate and junior college diploma programmes approved by the MOE of the PRC. The Target College, as an application-oriented higher education institution, was the third largest private undergraduate institution in Shandong Province in terms of its total number of full-time student enrolments of 25,423 in 2020/2021 school year, which accounted for approximately 4.8% of the total number of full-time student enrolments in all private undergraduate institutions in Shandong Province in 2020/2021 school year. During the Track Record Period, the Target College operated two campuses in Yantai City, Shandong Province, namely the Donghai Campus (東海校區) and the Nanshan Campus (南山校區).

During the 2021/2022 school year, the Target College operated 30 faculties and provided 49 undergraduate programmes and 40 junior college diploma programmes to its students. The Target College designs its curricula and introduces and adjusts major offerings mainly based on the extensive and ongoing market research it conducts and the feedbacks from its enterprise partners to determine the market demand for professional talents and the preferences of potential employers.

The Target College provides high-quality education to its students, which is not only reflected in the diversity of the majors and courses that the Target College offers, but also in the extensiveness of its collaborative relationships with its enterprise partners through which the Target College strives to improve its students' practical training and career prospects.

The Target College collaborates closely with enterprises in various industries to promote "Integration of industry and education; Cooperation of school and enterprise (產學融合、校企合作)", which focuses on providing practical training opportunities to equip its students with readily applicable skills. Such practical training opportunities include, but not limited to, internships and attending laboratories, which host workplace simulation training and participation at external practical training bases the Target College has set up with its school-enterprise collaboration partners. In 2018, the Target College was recognised as one of the Model Colleges of Experimental Innovation and Entrepreneurship in Shandong Province* (山東省創新創業典型經驗高校) by the Department of Human Resources and Social Security of Shandong Province (山東省人力資源和社會保障廳).

The Target College has experienced steady growth in its revenue and student enrolment during the Track Record Period. The revenue of the Target College increased from approximately RMB301.1 million for the year ended 31 December 2019 to approximately RMB324.5 million for the year ended 31 December 2020 and further to approximately RMB356.5 million for the year ended 31 December 2021. For the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years, the total number of student enrolments of the Target College amounted to 22,778, 25,379, 25,596 and 29,047 (up to 31 May 2022), respectively.

Benefiting from the policies that support the development of the industry of private higher education in the PRC, which includes but not limited to the Opinion on Promoting the High-Quality Development of Modern Vocational Education* (關於推動現代職業教育高品質發展的意見), which was promulgated in October 2021, the Target College believes that it will continue to identify suitable development opportunities in the future and execute their business strategies effectively.

COMPETITIVE STRENGTHS

The Target College believes that the following competitive strengths contribute to its success and differentiate it from its competitors:

In-depth integration of education and industry, and effective school-enterprise collaboration that enhance the career prospect of the Target College's graduates

The Target College highly values the significance of school-enterprise collaboration. Thus, the Target College initiates various types of school-enterprise collaborations, which primarily comprise of (i) Industrial College (產業學院); (ii) major design and curriculum formulation; (iii) titled training classes (冠名班); (iv) targeted training classes (訂單班); and (v) off-campus internship, practical training and practice bases (校外實習實訓實踐基地). The Target College's school-enterprise collaborations utilise the resources of the Target College's cooperation partners to create an education environment that combines practical training with academic studies from school-enterprise collaboration perspective and prepares its students for future development after graduation.

The Target College actively implements its education motto of "Integration of industry and education; Cooperation of school and enterprise (產學融合、校企合作)", via the cooperation of both the Target College and the Target College's cooperation partners in providing the education and practical training of the students. During the Track Record Period, the Target College established new school-enterprise collaborations with 63 enterprises, and the cooperative relationships with 18 of them are intended to last for at least five years. Through such cooperative relationships, the Target College's students have access to abundant training and employment opportunities.

The Target College focuses on providing technical skills (技術技能型) education to its students. As one of the most recent and important approaches to enhance the school-enterprise collaboration, the Target College established Nanshan Aluminium Industrial College* (南山鋁業產業學院) and Nanshan Culture and Tourism Industrial College* (南山文旅產業學院) in October 2020 to enhance the integration of industry and education and enhance its innovation of talent training model. As for the education of undergraduate programmes and junior college diploma programmes, the Target College has initiated titled training classes and targeted training classes since 2016, respectively. Pursuant to the arrangements of titled training classes and targeted training classes, the Target College and the enterprises partners jointly formulate the training schemes, course arrangements and practical training standards that are specifically tailored to the requirements of the relevant enterprises in order to cultivate graduates who fit their precise requirements and qualification. Besides the arrangements included in the targeted training classes, the Target College also jointly formulate the comprehensive talent training classes, off-campus internship practical training and practice plans and the topics of students' graduation thesis with such reputable enterprise partners to further enhance the practical training of the corresponding students. Please refer to the paragraph headed "— Principal Business Activities — Curriculum and Degrees — School-enterprise cooperation programme" in this section for further details.

Furthermore, as at the Latest Practicable Date, the Target College has entered into cooperation agreements with 179 enterprises, which are all Independent Third Parties, to set up off-campus internship, practical training and practice bases. Under the cooperation on establishing such off-campus bases, (i) the Target College sends its students off-campus to the facilities of these companies for practical teaching activities; and (ii) these companies coordinate such teaching activities and assign their professional staff as tutors. The term of the cooperation agreements the Target College enters into with such cooperation partners range generally from one to ten years, which is generally renewable automatically or upon mutual consent. Benefiting from the rich experience gained from school-enterprise collaboration, the Target College provided other education services to its cooperation partners during the Track Record Period, which primarily comprise of training services with the aim of enhancing practical skills for the cooperation partners' staff. The revenue derived from provision of other education services of the Target College amounted to approximately RMB15.7 million, RMB22.3 million, RMB21.5 million and RMB0.9 million for the Track Record Period, respectively, which represented approximately 5.2%, 6.9%, 6.0% and 1.0% of the total revenue of the Target College for the same periods.

The Target College's school-enterprise collaboration and technical skills education provide practical training opportunities for its students, which the Target College believes that have largely improved the competitiveness of its graduates in the job market.

Advanced application-oriented education and talent training model and a cradle for talents with technical skills

The Target College has an advanced application-oriented education and talent training model, which has the following major features:

Combining industry, education, research and application (產學研用融合). Under this model, the Target College aims to (i) integrate professional development of majors and courses with the industrial development (專業建設與產業發展一體化) through establishing professional committees, which are responsible for advising the development of majors and courses from industrial development perspectives. Benefited from the efforts for advancing the combination of industry, education, research and application, the Target College's majors of Material Forming and Control Engineering (材料成型與控制工程), Electrical Engineering and Its Automation (電氣工程及其自動化), Tourism Management (旅遊管理), Automation (自動化), Textile Engineering (紡織工程), Flight Vehicle Propulsion Engineering (飛行器動力工程) and Environmental Design (環境設計) have been recognised as Provincial Advantageous Specialties* (省級優勢特色專業) by the Education Authority and the Target College obtained the second awards in five fields in the 8th Higher Education Teaching and Achievement Award of Shandong Province* (山東省第八屆高等教育教學成果獎) in 2018; and (ii) enhance the integration of scientific research (科研一體化), which primarily contains the joint establishments and developments of research projects by the teachers and/or the researchers of the Target College and the engineers of the enterprises. As one of the most important achievements of the integration of scientific research, the research project based on the cooperation of Target College and Shandong Nanshan Aluminium Co. Ltd. (山東南山鋁業股份有限公司) in the field of aluminium alloy casting technology and equipment won the Shandong Province Science and Technology Award* (山東省科學技術獎) in 2016; and

Integrating teaching, learning and practice (教學做一體化). Under this model, students of certain majors, including but not limited to Major of Mechanical (機械系) and Major of Material (材料系), will be able to acquire their knowledge by attending lectures and participating experimental sessions and attending various practical trainings. With the aim of enhancing the integration of teaching, learning and practice, the Target College has jointly established several technology centres or laboratories with the cooperation enterprises with advanced infrastructure and facilities in the PRC.

Besides the abovementioned, the Target College also attaches importance to the integration of teaching staff construction (師資隊伍建設一體化), which lays a solid foundation for improving and enhancing the overall education quality of the Target College in the long run. Under this model, on the one hand, the Target College sends teachers to the enterprise partners for practical training to improve their practical capabilities and research capabilities, on the other hand, the Target College cooperates with certain number of senior managements and technical staff of the enterprise partners and such senior managements and technical staff act as the part-time teachers in the Target College for teaching and academic conferences.

Diversified curriculums and quality education infrastructures to closely track the needs of industrial development and transformation in Shandong Province and the PRC to cultivate high-quality, innovative, professional and technical talents

The Target College offers diverse and comprehensive education programmes to meet the evolving needs of the industries in Shandong Province and the PRC, especially for engineering-related majors and curriculums. For example, the disciplines of Chemical Engineering and Technology (化學工程與技術), Material Science and Engineering (材料學科與工程) as well as Textile Science and Engineering (紡織科學與工程) were established and enhanced for closely tracking the increasing demands for professional and technical talents in such industries. For the 2021/2022 school year, the Target College offered 25 and 16 engineering-related majors to its undergraduate and junior college students, respectively.

The Target College's focus on the subjects of engineering-related is also consistent with the education requirements of the PRC Government on expediting the upgrade of the quality of existing higher education of engineering-related majors to cultivate high-level professional and technical talents in the relevant fields of engineering, and in line with the employment market demands. For example, the Opinions of the General Office of the State Council on Deepening the Integration of Industry and Education (《國務院辦公廳關於深化產教融合的若干意見》), which was promulgated in December 2017, and the 2021 Implementation Rules (《中華人民民共和國民辦教育促進法實施條例》) and the Opinion on Promoting the High-Quality Development of Modern Vocational Education* (《關於推動現代職業教育高品質發展的意見》), which were promulgated in May and October 2021, respectively, show that the PRC Government's determination to enhance the quality of existing higher education, including but not limited to engineering-related majors.

The Target College has devoted resources to upgrade the education infrastructure since 2005. As at the Latest Practicable Date, the Target College possessed 210 laboratories, two libraries, one national level engineering practical education centre, and 40 student dormitory buildings. The Target College believes that its continuous efforts for improving the teaching facilities of the Target College and services that the Target College provides to its students through purchasing new teaching equipment, strengthening the campus cultural atmosphere construction to create green, ecological and dynamic campuses for its students and building intelligent campuses with more information technology, will not only facilitate daily school life of its students but also coincide with the innovative and entrepreneurship spirit of students in the subject of engineering and boost the Target College's competitiveness.

Experienced management team and high-quality teaching staff that support the quality education of application-oriented talents cultivation

The Target College's core management team has extensive knowledge, rich management experience and a proven track record in the higher education industry in the PRC. The Target College's principal and vice principals have at least six years of work experience in the higher education industry. The day-to-day management of the Target College is handled by its principal, who is assisted by several vice principals, each of whom is responsible for one or more specific aspects of the college's operations, such as education curriculum, student admissions, securities and logistics, student affairs and human resources.

Meanwhile, the Target College's core management team has received numerous recognitions. For instance, Yang Wanli, vice principal of the Target College, was appointed as a member of Higher Education University-level Mathematics Teaching Steering Committee* (高等學校大學數學課程教學指導委員會) in April 2013 by the MOE for the period from 2013 to 2017, and he has also been appointed as a member of the China Industry-University-Research Institute Collaboration Association (中國產學研合作促進會) in October 2021 for the period from October 2021 to September 2026. Liu Chenggang, vice principal of the Target College, was honoured as the Pioneer Communist Party Member of Higher Education in Science of Shandong Province* (山東高校科教與魯先鋒共產黨員) by Communist Party Shandong Provincial Higher Education Work Committee* (中共山東省委高校工委) in June 2012. The industry experience and capabilities of the principal and the vice principals as well as the broader vision of the Target College's core management team have strengthened the Target College's capabilities to integrate and optimise the resources along the value chain of the education industry for the Target College to provide the quality and diversified educational services.

The Target College believes that the quality of the education is primarily dependent on the quality of the teachers. The Target College has a professional and stable teaching team possessing rich subject knowledge, industry expertise and teaching experience. The Target College has formulated strict standards and procedures for recruiting teachers and conducts assessments of teachers, such as student satisfaction surveys. As at 31 May 2022, the Target College had 1,131 full-time teachers, among which, approximately 74.4% have a master's degree or doctorate degree, and approximately 720 have the title of lecturer or above. As at the same date, the Target College also had 480 part-time teachers, of which 56.9% hold a master's degree or doctorate degree.

BUSINESS STRATEGIES

The Target College intends to expand its business operations, enhance its profitability, improve its curriculums and training programmes, and solidify the position of the Target College as being one of the top three private undergraduate higher education institutions in Shandong Province (in terms of the total number of undergraduate student enrolments of the Target College for the 2020/2021 school year). To achieve its goals, the Target College plans to execute the following business strategies:

Continue to expand the business operations of the Target College and diversify its revenue sources

The Target College intends to expand the scale of its business operations and diversify its revenue primarily through the following measures:

Optimise major offerings. To make the Target College's curriculums more attractive to its students, the Target College plans to continue to optimise the majors the Target College offers based on the market demand. According to the Industry Report, better match of talent cultivation and market demand is a key industry trend, and changes of China's industrial structure have led to a higher demand for application-oriented and high-end talents. Besides, in order to stay competitive, private higher education institutions are generally offering a more diversified set of majors. Therefore, the Target College is currently considering launching at least four new undergraduate majors, namely Accountancy (會計學), Artificial Intelligence (人工智能), Big Data Management and Application (大數據管理與應用) and Dance (舞蹈學) in the 2022/2023 school year.

Moreover, the Target College plans to add majors that are in high demand based on its research of the local job market in Shandong Province and feedbacks from its enterprises partners, such as the majors relating to material science, information technology, healthcare, tourism and chemical engineering, to attract more students. The Target College aims to provide majors, which contribute to the social and economic development of Shandong Province and the PRC. The Target College regularly reviews and analyses the evolving market demand, the industrial layout of Shandong Province and the PRC as well as the business development of its enterprises partners, so that the Target College can adjust the majors it offers accordingly. For example, the Target College launched four new majors in the beginning of 2021/2022 school year, namely, Food Nutrition and Health (食品營養與健康), Arts and Crafts (工藝美術), Music (音樂學) and Macromolecule Material and Engineering (高分子材料與工程), two majors in the 2020/2021 school year, namely Process Equipment and Control Engineering (過程裝備與控制工程) and Data Science and Big Data Technology (數據科學與大數據技術), and one major in the 2019/2020 school year, namely, Chemical Engineering and Technics (化學工程與工藝).

Offer postgraduate education. With the aim of implementing its 14th Five-Year Development Plan (「十四五」事業發展規劃), the Target College filed an application to the University Degree Commission of the People's Government of Shandong* (山東省人民政府學位委員會) in 2017 and was granted the approval of establishment of Initiation (Cultivation) Development Unit* (立項(培育)建設單位) in the same year to offer professional master's degree level studies in certain majors to qualified undergraduate students. For the 2021/2022 school year, around 320 of the Target College's graduates went on to seek professional postgraduate education in other universities after graduation. Upon approval of the relevant education authorities, the Target College can offer part of the professional postgraduate practical education programmes and allow postgraduate students of the partner schools to apply to such programmes. The Target College believes that postgraduate education can greatly improves its reputation and influence.

Continue to strengthen the school-enterprise collaboration business model of the Target College

To improve the Target College's competitiveness, the Target College has established the Department of School-enterprise Cooperation (校企合作處) and aims to improve its school-enterprise collaboration business model. The Target College has entered into cooperative relationship with numerous leading and reputable enterprises in a variety of industries, including travel, telecommunications and medical sectors. Pursuant to these cooperative agreements, the Target College collaborates closely with these enterprises and institutions to formulate and design applicable curriculums and practical programmes for its students. The school-enterprise business model allows the Target College to tap into a large pool of industry experts to teach in the Target College on a part-time basis, thereby, providing the students access to enhanced hands-on learning.

The Target College also aims to leverage on a large and growing alumni network to further explore school-enterprise collaboration opportunities, which the Target College believes that will knit closer ties between the Target College and its existing and potential partners and, provide additional internship and employment opportunities for its students.

Continue to strengthen and develop the research capabilities of the Target College

The Target College believes that possession of strong research capabilities within the industry is one of the key factors leading to the success of a higher education institution. The Target College will continue to strengthen its research capabilities and commit in developing and improving its managerial and operational mechanisms. In order to maintain its competitiveness, the Target College intends to further enhance and promote its research capabilities according to the market demands.

As at the Latest Practicable Date, the Target College possessed 210 laboratories, among which, 155 are professional laboratories (專業實驗室) and 55 are foundational laboratories (基礎實驗室). As at the same date, the Target College has 771 ongoing or completed government-supported research projects, among which four of them are state-level projects and another four are MOE-level projects. The Target College believes that possession of strong research capabilities enables the Target College, among others, to (i) attract quality research and teaching staff, which will further enhance the education quality; (ii) further promote its brand recognition and reputation; and (iii) gradually develop the Target College into one of the leading institutions with quality disciplines in response to the Notice of the State Council on Issuing the Overall Plan for Coordinately Advancing the Construction of World First-class Universities and First-class Disciplines (《國務院關於印發統籌推進世界一流大學和一流學科建設總體方案的通知》), which was promulgated in October 2015.

Continue to improve the quality of the teachers of the Target College

The quality of the education services of the Target College largely depends on its teachers. The Target College intends to continue to improve the overall quality of its teaching staff and build a first-rate faculty team. To achieve this objective, the Target College recruits well-recognised technical experts, experienced business administrators and other highly skilled personnel to teach at the Target College on either a full-time or a part-time basis. The Target College will continue to apply high teacher recruitment standards, including favouring teaching candidates with master's degrees or above who also possess adequate and relevant work experience. To further improve the quality of teaching, the Target College plans to refine its educational quality control systems by adopting and maintaining rigorous teacher performance standards. These evaluations will continue to involve periodic performance reviews, which will include evaluating teachers' teaching performance and preparation as well as their results of students' papers and exam papers.

Meanwhile, the Target College also organises a variety of events and/or projects to improve the teaching quality, and these events and/or projects include but not limited to holding teaching competition to improve young teachers' teaching capabilities, holding a variety of training sessions for the teachers and revamping the contents of the lectures and teaching methods from time to time.

PRINCIPAL BUSINESS ACTIVITIES

The Target College

During the Track Record Period, the Target College offered in aggregate 49 undergraduate programmes (26 engineering (工程學) programmes, eight management (管理學) programmes, eight art (藝術學) programmes, four literature (文學) programmes, two medical (醫學) programmes and one economics (經濟學) programme) and 40 junior college diploma programmes (one transportation (交通運輸) programme, three public management and service (公共管理與服務) programmes, two medical and health (醫藥衛生) programmes, one civil construction (土木建築) programme, two education and physical education (教育與體育) programmes, five culture and art (文化藝術) programmes, four tourism (旅遊) programmes, three biology and chemical (生物與化工) programmes, six digital and information (電子與信息) programmes, five equipment manufacturing (裝備製造) programmes and eight finance and commerce (財經商貿) programmes), covering six academic disciplines and 11 college diploma disciplines categorised by the MOE, respectively.

Number of Students

The total number of the student enrolments of the Target College was 22,778 in the 2018/2019 school year, 25,379 in the 2019/2020 school year, 25,596 in the 2020/2021 school year and 29,047 in the 2021/2022 school year (up to 31 May 2022), respectively. The total number of student enrolments of the Target College has been on a rising trend in the past few academic years because the Target College has increased the programmes it offers and has increased its marketing and promotional campaigns. The following table sets forth the detailed information regarding the number of students enrolled in the Target College 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years, respectively.

	Student enrolment			
	2018/2019	**2019/2020**	**2020/2021**	**2021/2022**
Target College	22,778	25,379	25,596	29,047
Full-time	22,595	25,171	25,423	28,959
Part-time	183	208	173	88

Note:

Despite the fact that the Target College's financial year ends on 31 December, the Target College's school year ends on 31 August. For the purpose of this circular, the Target College uses 1 October as the cut-off date to present student enrolment figures for each school year minus the number of students who dropped out in that particular school year. The Target College's business operating data presented in this table is based on the internal records of the Target College. In the 2021/2022 school year, 102 part-time students of the Target College graduated in January 2022 and 23 new part-time students enrolled in March 2022. For the number of students who dropped out in the same school year, the Target College only takes into account those students who have dropped out on or before 31 May 2022.

Capacity and Utilisation

The programmes offered by the Target College can be categorised into undergraduate programmes and junior college diploma programmes. In 2021/2022 school year (up to 31 May 2022), 48.3% of the Target College's students enrolled in the undergraduate programmes, while 51.7% of the Target College's students enrolled in the junior college diploma programmes. Except when the students are taking up off-campus internships, the Target College generally requires all its students to live in school dormitories.

The Target College believes that the number of the students its dormitories are designed to accommodate is the most reasonable metric to estimate the capacity of the Target College. In addition, the capacity for student enrolment at the Target College is restricted by the student enrolment quota approved and adjusted by the relevant PRC education authorities.

The following table sets forth the capacity and utilisation rate of the Target College for the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years, respectively.

	College capacity(1)				College utilisation rate(2)			
	2018/ 2019(3)	2019/ 2020(3)	2020/ 2021(3)	2021/ 2022(3)	2018/ 2019(3)	2019/ 2020(3)	2020/ 2021(3)	2021/ 2022(3)
Target College	27,187	27,072	29,812	30,088	84.4%	94.3%	86.9%	97.0%

Notes:

(1) The Target College generally requires all its students to reside in its school dormitories during their study at the Target College except when special circumstances arise, such as sickness suffered by certain students relating to emotions or contagious diseases and when the students are living with their parents in their family-owned properties near by the Donghai Campus and the Nanshan Campus. In such circumstances, the Target College would allow certain of its students to seek off-campus accommodation. Further, to facilitate the students' off-campus internships, students can request not to live in dormitories on campus during their internship period. The college capacity is calculated by the Target College internally as the number of beds in student dormitories in each school year.

(2) The college utilisation rate is calculated by the Target College internally as the number of the Target College's full-time students in each school year divided by the school capacity for each corresponding school year.

(3) Despite the fact that the Target College's financial year ends on 31 December, the Target College's school year ends on 31 August. For the purpose of this circular, the Target College uses 1 October as the cut-off date to present student enrolment figures for each school year. The Target College's business operating data presented in this table is based on the internal records of the Target College.

Tuition Fees and Boarding Fees

For the Track Record Period, the Target College derived its revenue substantially from the tuition fees and boarding fees. For other fees the Target College charged for the Track Record Period, please refer to "Financial Information of the Target College — Major Components of Our Results of Operations — Revenue". The Target College usually requires the students to pay tuition fees and boarding fees for each school year at the beginning of that school year.

The following table sets forth the listed tuition fees and boarding fees of the Target College for the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years, respectively:

	Listed tuition fees in each school year				Boarding fees in each school year			
	2018/2019	2019/2020	2020/2021	2021/2022	2018/2019	2019/2020	2020/2021	2021/2022
				(RMB)				
Target College								
Undergraduate* programmes	11,000–19,200	11,000–20,800	12,800–20,800	12,800–20,800	900–1,300	900–1,300	900–1,300	900–2,000
Junior college diploma* programmes	8,200–9,300	8,200–13,300	8,200–13,300	8,200–13,300	900–1,300	900–1,300	900–1,300	900–2,000

Note:

* The listed tuition fee rates charged depends on different undergraduate and junior college diploma programmes offered. During the Track Record Period, Target College raised listed tuition fees for certain undergraduate and junior college diploma programmes.

The tuition fees and boarding fees of the Target College remained relatively stable during the Track Record Period. The Target College believes that it has adopted fee adjustment policies suitable for its efficient operations and rapid development, and formed a healthy cycle for the development.

Student Withdrawals and Refund

The Target College has tuition fees and boarding fees refund policies for students who leave during a school year. Generally, if a student enrols and pays tuition fees and boarding fees but leaves the Target College before the end of that school year, the Target College will refund the tuition fees and boarding fees for any remaining full academic months. The following tables set forth (i) the number of new students and number of students who dropped out in each school year; and (ii) the amount of refund with respect to tuition fees and boarding fees collected in each school year:

	School years			
	2018/2019*	2019/2020*	2020/2021*	2021/2022 (up to 31 May 2022)*
Number of new students	7,501	7,886	6,975	10,746
Number of students who dropped out	356	361	470	227

Note:

* Despite the fact that the Target College's financial year ends on 31 December, the Target College's school year ends on 31 August. For the purpose of this circular, the Target College uses 1 October as the cut-off date to present the number of new students for each school year, whereas the number of students who dropped out represents the number of students who dropped out in that entire school year unless otherwise specified. The Target College's business operating data presented in this table is based on the internal records of the Target College.

	Refund with respect to tuition fees collected for each school year				Refund with respect to boarding fees collected for each school year			
	2018/2019(1)	2019/2020(1)	2020/2021(1)	2021/2022 (up to 31 May 2022)(1)	2018/2019(1)	2019/2020 (1)&(2)	2020/2021(1)	2021/2022 (up to 31 May 2022(1)
				(RMB'000)				*(RMB'000)*
Target College	2,564.1	2,389.4	1,888.5	2,798.0	393.7	11,526.7	503.7	951.0

Notes:

(1) Despite the fact that the Target College's financial year ends on 31 December, the Target College's school year ends on 31 August. The Target College's business operating data presented in this table is based on the internal records of the Target College.

(2) The amount of boarding fees refunded for the 2019/2020 school year includes the amount of RMB 10.5 million the Target College refunded due to the closing of the Target College's campuses as a result of the COVID-19 pandemic pursuant to the requirements of the PRC Government.

(3) The number of students who dropped out and the amounts of refund with respect of tuition fees and boarding fees collected are not proportionate because the amount of tuition fees and boarding fees refund that each drop-out student is entitled to is based on i) the major pursued by that student at the Target College and the tuition fees of the majors offered by Target College vary; and ii) the remainder of the school year and students who dropped out earlier in the school year are entitled to more refund and vice versa.

Curriculum and Degrees

The Target College currently offers 49 undergraduate programmes and 40 junior college diploma programmes. It generally takes four years of full-time study for students enrolled in the Target College's undergraduate programmes to complete their degree, while it generally takes three years of full-time study to complete the Target College's junior college diploma programmes.

The two-tier college organisation structure allows the Target College to recruit technical and industry experts as well as business administrators to develop specific curriculums and talent cultivation plans for students in each of the majors offered. This allows the Target College to set clear teaching goals, assign the courses to the most appropriate teachers/instructors, and to teach the students in accordance with the specifically designed curriculums. The Target College believes that this carefully designed talent cultivation system enables it to allocate education resources more efficiently and gives flexibility.

The Target College believes that what the students ultimately take away from their education at the Target College largely depends on the careful planning of the Target College's academic programmes. The Target College takes into account its educational objectives and innovative spirit when designing appropriate course materials. The Target College encourages its teachers to adopt innovative teaching methods and choose the course materials that fit their teaching methods and match the learning potential of the students. While the Target College emphasises theoretical in-class teaching and learning, the Target College also encourages its students to take practical courses or participate in internships to sharpen their practical skills.

Workplace simulation training programmes

The Target College believes that the knowledge and skills that can be immediately applied to workplaces after graduation are of great importance for students' future careers. As such, the Target College has designed and founded the workplace simulation training programmes on the principle of teaching real-world practices so that graduates will enter workforce with experiences on par with what they would gain from years of on-the-job experience. As at the Latest Practicable Date, the Target College has established one simulation training centre, which offers flight simulation, and numerous laboratories. The Target College believes that the establishment of the workplace simulation training programmes and the cooperation with enterprises provide students with abundant resources to receive practical trainings to be ready for their future work.

School-enterprise cooperation programme

The Target College attaches great importance to school-enterprise collaboration and has established numerous and wide school-enterprise collaboration programmes to combine resource from the Target College and other enterprises or institutions, which create an effective educational environment that incorporates practical training with academic learning. Under the school-enterprise cooperation, the Target College could formulate the talent cultivation plans and compile teaching materials with its cooperation partners. The Target College becomes the training centre for professional and technical talents and the technology research centre for the enterprises, while the enterprises become the internship, practical training and practice bases for the Target College. The Target College believes that such cooperation will prepare the students well for the job market after graduation. As at the Latest Practicable Date, the Target College has entered into cooperation agreements with 190 enterprises, of which 179 of them are all Independent Third Parties in relation to the provision of school-enterprise collaboration programmes.

Even though some students of the Target College participate in industrial colleges, titled training classes and/or targeted training classes involving the Nanshan Group or its related companies, the tuition fees and boarding fees received by the Target College from the students of the Target College are not related to Nanshan Group or its related companies. The Target College is not required to share the tuition fees and boarding fees it has collected from its students with the Nanshan Group or its related companies, nor does it receive any financial assistance from the Nanshan Group or its related companies.

The approaches of cooperation have been broad, which primarily include the following:

- *Industrial College (產業學院)*. The Target College established Nanshan Aluminium Industrial College* (南山鋁業產業學院) and Nanshan Culture and Tourism Industrial College* (南山文旅產業學院) in October 2020, to enhance the integration of industry and education (產學融合) and enhance the innovation of talent training model. As at the Latest Practicable Date, the Target College operates four Industrial Colleges.

- *Major design and curriculum formulation*. The Target College conducts industry-college-research cooperation (產學研) with other enterprises or institutions, through which the Target College sends its relevant teachers to the cooperation partners to engage in research and development activities, while the cooperation partners send their relevant employees to the Target College to conduct relevant teaching activities as part-time teachers in the Target College. The Target College cooperates with these cooperation partners to set up application-oriented majors and courses and formulate relevant teaching materials. Industry experts from the cooperation partners engage in the teaching activities at the Target College and discuss curriculum formulation, class hour allocation and internship arrangements with the Target College. To make sure that the Target College's courses keep up with the market requirements, the teachers of the Target College sent to the cooperation partners will learn the up-to-date practices in the relevant industries. For the 2021/2022 school year (up to 31 May 2022), the Target College had 27 active industry-college-research cooperation programmes.

- *Titled training classes (冠名班)*. In respect of undergraduate programmes provided by the Target College, the Target College has initiated titled training classes with certain reputable enterprise partners since 2016, where, besides the arrangements included in the targeted training classes, the Target College will also jointly formulate the comprehensive talent training plans, off-campus internship practical training and practice plans and the topics of students' graduation thesis with such reputable enterprise partners to further enhance the practical training of the students. As at the Latest Practicable Date, the Target College has established nine titled training classes with certain reputable enterprise partners, such as Shandong Nanshan Aluminium Co., Ltd.* (山東南山鋁業股份有限公司) and Shandong Zhongchuang Software Engineering Co., Ltd.* (山東中創軟件工程股份有限公司). Shandong Zhongchuang Software Engineering Co., Ltd has developed software products and solutions for a variety of areas, which include but not limited to credit risk, financial lease, highway and "smart neighbourhood", and its clients include governmental organisations and corporates in the PRC, North America, Europe, Australia and Southeast Asia.

- *Targeted training classes (訂單班)*. The Target College formulates the cultivation schemes, course arrangements and practical training standards with other enterprises according to their requirements to cultivate graduates who fit such requirements. Under the cooperation on targeted training classes, (i) the Target College is primarily responsible for, among others, formulating and implementing the education plans, and selecting the teachers, for the targeted training classes; whereas (ii) the cooperation partners are responsible for, among others, providing practical training courses and training of its teachers, and providing practical training and internship opportunities to the students of the targeted training classes. The students in the targeted training classes will be directly involved in the businesses of the relevant cooperation partners, during which they will be supervised and guided by both the cooperation partners and the Target College. After the evaluation by the cooperation partners, qualified students will be officially employed by such cooperation partners. As at the Latest Practicable Date, the Target College has established nine targeted training classes.

- *Off-campus internship, practical training and practice bases*. The Target College cooperates with other enterprises to establish and operate high-quality practical training bases outside the college campus, in accordance with the development of the local economy, adjustment of the industrial structure, talent requirements of the enterprises and labour market conditions. During the Track Record Period, the Target College cooperated with enterprises to establish and operate off-campus internship, practical training and practice bases. As at the Latest Practicable Date, the Target College has entered into cooperation agreements with 179 enterprises, which are all Independent Third Parties, to set up off-campus internship, practicable training and practice bases.

The following sets forth certain of the Target College's key school-enterprise collaboration programmes:

Name of the enterprise partner	Key features of the collaboration
Shandong Nanshan Aluminium Co., Ltd.(山東南山鋁業股份有限公司)*(Note)*	• Selected students of the Target College will be given the opportunity to work for the enterprise partner as paid interns; • Selected students of the Target College who participate in the internship programme at the enterprise partner might be offered a permanent position after their graduation from the Target College; • Selected teaching staff of the Target College will be given the opportunity to strengthen his/her skills by working at the enterprise partner; • Outstanding staff of the enterprise partner will be offered an opportunity to teach concurrently at the Target College; and • The enterprise partner and the Target College to jointly build up practical training bases and experimental teaching centres.

Note:

* Nanshan Group is a controlling shareholder of Shandong Nanshan Aluminium Co., Ltd.

Name of the enterprise partner	Key features of the collaboration
Nanshan Tourism Group Co., Limited* (南山旅遊集團有限公司)*(Note)*	• Selected students of the Target College can attend the internships and practical training organised by the enterprise partner; • The enterprise partner and the Target College jointly design the curriculum and teaching cases database; • The enterprise partner and the Target College will jointly develop a practical training and internship base; • The enterprise partner and the Target College have jointly started a new initiative to improve the ability of the students of the Target College to speak foreign languages and to engage in foreign exchange; and • The enterprise partner and the Target College has jointly initiated 32 research projects.

Note:

* Nanshan Group is a controlling shareholder of Nanshan Tourism Group Co., Limited.

Name of the enterprise partner	Key features of the collaboration
Nanshan Yulong Petrochemical Co., Ltd (南山裕龍石化有限公司)*(Note)*	• The enterprise partner and the Target College jointly develop new talent cultivation plans, teaching plans, teaching standards and methods; • Selected students of the Target College can attend the practical training organised by the enterprise partner; • Selected teaching staff of the Target College will be given the opportunity to strengthen his/her skills by working at the enterprise partner; and • The enterprise partner shall provide career-related services to selected students of the Target College.

Note:

* Nanshan Group is a controlling shareholder of Nanshan Yulong Petrochemical Group Co., Limited.

Name of the enterprise partner	Key features of the collaboration
Shandong Nanshan Fashion Sci-tech Co., Ltd (山東南山智尚科技股份有限公司)(Note)	• Selected teaching staff of the Target College can engage in further studies/ training organised by the enterprise partner; • Selected students of the Target College will be given the opportunity to work for the enterprise partner, or even a permanent position after their graduation from the Target College; • Selected teaching staff of the Target College will be given the opportunity to strengthen his/her skills by working at the enterprise partner; • The enterprise partner and the Target College will develop a new Industrial College; and • The enterprise partner and the Target College jointly establish new national/state-level scientific research projects.

Note:

* Nanshan Group is a controlling shareholder of Shandong Nanshan Fashion Sci-tech Co., Limited.

Benefiting from the rich experience gained from school-enterprise collaboration, the Target College also provided other education services, which primarily comprise of training programmes with the aim of enhancing practical skills for the staff working for the cooperation partners, university students and graduates as well as migrant workers, during the Track Record Period. The training programmes provided by the Target College can be divided into three categories, namely skills training, entrepreneurship training and short term training. The skills training programmes can be further divided into three levels, namely elementary, intermediate and advanced. During the Track Record Period, the Target College has offered as many as 91 training programmes.

Key features of the training services agreements

Key training programmes	• Professional accountancy skills qualification • Tour guide qualification • Corporate human resources manager • Big data engineering technician • Blockchain engineering technician • Community rehabilitation assistant • Online entrepreneurship training • Catering • Marketing • Tourism • Food processing
Key pricing policies	• The subsidy the Target College has received for some of the training programmes during the Track Record Period ranged from RMB800 to RMB2,100 per participant • The Target College is barred from collecting material fees, examination fees and certification fees from the participants of the training programmes
Key responsibilities of the Target College	• Design the training programmes and the graduation assessments • Assist underprivileged participants to apply for living allowance • Ensure that the passing rate of the training programmes stands at 95% or above

The revenue derived from provision of other education services of the Target College amounted to approximately RMB15.7 million, RMB22.3 million, RMB21.5 million and RMB0.9 million for the Track Record Period, which represented approximately 5.2%, 6.9%, 6.0% and 1.0% of the total revenue of the Target College for the same periods, respectively.

Examination and Grade Assessment

Examinations are administered at the end of each semester to last students' understanding in various subject matters. The final grade a student receives for a particular course generally consists of his or her performance in the written examinations and/or coursework assessment. The course work assessments consist of projects and other forms of assessments including students' participation in class discussions, their performance on written papers, homework and tests. The results of their internship evaluations and training and practical examinations also form a significant part of their final grades.

Career Development

The Target College believes that career development is a key part of its operation, and high quality graduate employment is of vital importance to its future success. To facilitate students' career development, it provides a wide range of services to students who seek employment or internship opportunities. In addition to providing a platform for students to gather and disseminate employment information, the Target College also strives to help students explore the life, work and learning options available to them. When students approach for counselling services, the Target College will offer career advice based on the students' personal interests and career plans. It also organises job-search trainings and other employment-related events from time to time to equip the students with the desired skills.

School Facilities

The campuses of the Target College encompass approximately 1,247.0 thousand sq.m. and have a variety of campus facilities, such as classroom buildings, workplace simulation training studios, laboratories, libraries, restaurants, cafeterias, dormitories, gymnasiums, track and field, and courts (such as basketball, tennis and/or soccer courts). Facilities such as air conditioners have been installed in school dormitories.

Impact of the COVID-19

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. The outbreak of COVID-19 cases in the PRC and globally have caused governments around the world to implement unprecedented measures such as city lockdowns, travel restrictions, quarantines and business shutdowns.

As at the Latest Practicable Date, the spread of COVID-19 in Shandong Province and the PRC was under control and other than the significant economic downturn in the PRC in the short term for the three months ended 30 March 2020, there had been no material impact to the economy and livelihood of the PRC where the Target College operates.

Industry, economic and social impact relating to business of the Target College

According to the Industry Report, the COVID-19 outbreak did not have any significant impact on private higher education industry in Shandong Province and the PRC with regard to student enrolment and revenue from tuition fees considering the availability of online courses and the return of students to face-to-face teaching once the COVID-19 outbreak is effectively under control in Shandong Province and the PRC. According to the same report, the total number of the student enrolments of the higher education in the PRC increased from approximately 33.2 million for the year ended 31 December 2019 to approximately 36.0 million for the year ended 31 December 2020, representing an increase of approximately 8.5%, and it is expected that the total number of the student enrolments of the higher education in the PRC will increase to approximately 43.5 million for the year ending 31 December 2025.

However, the delay of the opening of the school campuses in the spring semester of 2020 might have affected the revenue from boarding fees of formal higher education to a certain extent. In addition, the Target College may face more challenges if the COVID-19 outbreak prolongs and worsens, the operations of the Target College, including its student recruitment progress, may be adversely affected, which, in turn, will impact its financial performance for the year ended 31 December 2021.

Historical financial impact and the possible impact on the results of operations of the Target College and financial condition in the future

The Target College is of the view that the COVID-19 outbreak did not have any significant impact on its revenue from tuition fees for year ended 31 December 2020 as the Target College has collected tuition fees in advance for the 2019/2020 school year in August 2019. However, the COVID-19 outbreak affected the revenue of the Target College from boarding fees and certain other income related to the campus operation for the year ended 31 December 2020 as the Target College refunded approximately RMB10.5 million of the boarding fees collected for the spring semester of the 2019/2020 school year as required by the relevant education authority, and the rental income and certain other income of the Target College decreased mainly due to the closure of the Target College's campuses during the outbreak of COVID-19 from 24 February 2020 to 21 May 2020.

The below table sets forth a comparison of the abovementioned data during the years ended 31 December 2019, 2020 and 2021 and the three months ended 31 March 2021 and 2022:

	Year ended 31 December			Three months ended 31 March	
	2019	2020	2021	2021	2022
			(RMB'000)		
Boarding fees revenue	24,877	16,862	27,775	6,675	7,458
Rental income	6,234	5,773	11,765	3,022	3,217
Other income *(Note)*	17,803	12,988	18,975	4,912	5,550

Note: including rental income

Competitiveness of the Target College

Despite the COVID-19 pandemic, the demand for private higher education is expected to remain strong in the PRC due to an increasingly competitive society with higher expectation of education background.

The Target College has taken a series of measures in response to the COVID-19 pandemic, including, among others, (i) offering online classes to its students since 24 February 2020 until mid-June 2020 after all the in-person classes resumed; (ii) installing wireless equipment in the classrooms to help the teachers to hold virtual classes; (iii) devising plans for the students to return to the Target College in groups; (iv) requiring the students to report their daily health status; (v) scrutinising the holiday travel requests made by the students and staff very strictly in accordance with the guidance given by the PRC Government; (vi) comprehensively checking the availability of the COVID-19 pandemic prevention and control supplies (including masks, protective clothing, hand sanitisers and disinfectants) and preparing sufficient supplies for the students and staff; (vii) administering COVID-19 testing for all students and staff in the campuses of the Target College; (viii) restricting social gathering and certain other activities of its students and staff; and (ix) encouraging all students and staff in the campuses of the Target College to receive vaccination. As at the Latest Practicable Date, none of the students and staff of the Target College were diagnosed with COVID-19 in connection with the COVID-19 outbreak.

STUDENTS OF THE TARGET COLLEGE

The Target College admits students from 25 provinces, municipalities or autonomous regions in the PRC.

Student Admission

The PRC National Higher Education Entrance Exam, or Gaokao (高考) is the major channel for the Target College to enrol students. Graduating high school students nationwide submit applications to several universities/colleges of their choice based on the scores they achieved in the Gaokao. Each province in the PRC sets its own standard levels of the Gaokao scores for different academic concentrations, and the universities/colleges in each province then evaluate and admit prospective students based on the respective scores and specific aspirations in students' applications, which usually rank universities/colleges in several categories with the first choice being the school the student wants to attend the most.

In addition to Gaokao, the Target College was approved by the provincial education bureau to admit junior college students through the Independent Enrolment for Higher Vocational Education (高職院校單獨招生). For high school graduates and graduates of secondary vocational schools who choose to apply for a junior college programme in the Target College, apart from Gaokao, some of them can choose to take the independent enrolment exam administered by the Target College. Prior to the Track Record Period, as the Target College misunderstood the then relevant policies on the scope of student admissions back in the period between 2007 and 2011, the student admission for the non-academic education programmes of the Target College was suspended for three years, and that of five undergraduate programmes was suspended for one year, respectively pursuant to an administrative penalty on the Target College. As confirmed by the Target College's directors, the Target College has ceased to admit students for non-academic education programmes since 2012 and as at the Latest Practicable Date, the one-year suspension for those five undergraduate programmes was expired and so the Target College has resumed new student admission for such programmes. The directors of the Target College considered that the administrative penalty had no material adverse impact on the Target College's operation and financial position.

The new student enrolment of the Target College has been driven by the brand and reputation of the Target College. Based on the feedback the Target College received from the students and their parents, the Target College believes that they are generally satisfied with the high-quality education the Target College provides and are therefore willing to help the Target College attract more students through referrals. In addition, benefiting from the proven track record, the Target College has built a wide base of alumni, who the Target College believes have passionate and genuine emotional connections with the development of the college. Other than referrals, another major promotional effort is to participate in the consulting sessions organised for prospective students and to visit certain high schools in Shandong or other provinces. The Admissions and Careers Office (招生就業處) is responsible for student recruitment.

The following table sets forth details of the consulting sessions attended by the staff of the Admissions and Careers Office:

Year	Number of provinces visited	Number of consulting sessions attended	Number of high schools visited
2019	11	141	71
2020	4	147	21
2021	7	292	126
2022 (up to 31 May 2022)	1	0	121

The Target College believes that, as a result of its efforts in multiple student recruitment channels and the reputation of its high-quality education services, the number of students applications has been higher than the actual number of students the Target College is able to enrol in recent years and the actual grades of the students it enrolled in various provinces were also higher than the minimum grade it may enrol.

TEACHERS OF THE TARGET COLLEGE

Teaching Staff of the Target College

The Target College believes that its team of experienced and dedicated teachers are crucial to the success of the Target College. As an operator of private college, the Target College believes that it can provide better incentives to independently recruit qualified teachers who fit its hiring criteria. Teachers are the key to maintaining high-quality educational programmes and services as well as maintaining the brand and reputation of the Target College. The aim of the Target College is to continue hiring teachers with a strong command of their respective subject areas who are open to innovative teaching methods and a caring heart towards students' well-being.

The table sets forth the number of the teachers of the Target College for the school years indicated:

	Number of Teachers School Year			
	2018/2019(2)	2019/2020(2)	2020/2021(2)	2021/2022(2)
Full-time teachers	969	973	979	1,078
Part-time teachers(1)	357	367	363	422
Total	1,326	1,340	1,342	1,500

Notes:

(1) Part-time teachers include regular part-time teachers at the Target College and the teachers who are employees of the school-enterprise cooperation partners teaching in the Target College's school-enterprise collaboration programmes on a part-time basis.

(2) Despite the fact that the Target College's financial year ends on 31 December, the Target College's school year ends on 31 August. For the purpose of this circular, the Target College uses 1 October as the cut-off date to present number of teachers for each school year. The Target College's business operating data presented in this table is based on the internal records of the Target College.

As at 31 May 2022, the Target College had engaged 480 part-time teachers. Pursuant to the relevant PRC laws and regulations, part-time teachers engaged from public schools shall be entitled to carry out part-time teaching activities in private schools with explicit approval from the relevant public higher institution employers; while for part-time teachers who are employees of the school-enterprise cooperation partners of the Target College, there is no provision under the Labour Contract Law of the PRC stipulating that the teachers are prohibited from working part-time in other enterprises unless materially breaching their employers' internal rules. The Target College has required all such part-time teachers to report their part-time teaching activities to the relevant employers. In the event the relevant employers do not approve such part-time teaching activities and the Target College, in turn, terminate their services, the Target College has established a contingency plan to have other qualified teachers of the Target College to step in to cover the responsibilities and duties of such part-time teachers. As at the Latest Practicable Date, none of these teachers had received any objection from their employers in connection with their part-time teaching activities at the Target College. The Target College also requires its human resources department to strengthen the screening process for teacher applicants to ensure that all its part-time teachers who are employees of the school-enterprise cooperation partners of the Target College have obtained the requisite approvals going forward.

The following table sets forth the teacher-to-student ratio, taking into account both full-time and part-time teachers, of the Target College for the school years indicated:

Teacher-to-Student Ratio(1)			
School Year			
2018/2019(2)	**2019/2020**(2)	**2020/2021**(2)	**2021/2022**(2)
1:18.8	1:20.5	1:20.8	1:21.9

Notes:

(1) The teacher-to-student ratio is generally calculated by dividing the number of teachers as at 1 October during each school year by the number of students enrolled as at 1 October during each school year. The number of students enrolled on a full-time basis and the number of teachers are based on the Target College's internal records. According to the School Condition Notice, teacher-to-student ratio = 1: (the number of full-time students/(the number of full-time teachers + the number of part-time teachers*0.5)).

(2) Despite the fact that the Target College's financial year ends on 31 December, the Target College's school year ends on 31 August. For the purpose of this circular, the Target College uses 1 October as the cut-off date to present operating data for each school year. The Target College's business operating data presented in this table is based on the internal records of the Target College.

For details of this non-compliance incident, the legal consequences, potential maximum penalties and the remedies and rectification measures the Target College has taken to prevent future occurrence and ensure its ongoing compliance, please refer to the paragraph headed "— Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this section.

As at 31 May 2022, the Target College had 1,131 full-time teachers, among which 841, or approximately 74.4%, had a master degree or above, and 720, or approximately 63.7%, of the Target College's full-time teachers have the title of lecturer or above, and 480 part-time teachers of which 273, or approximately 56.9%, had obtained a master's degree or above. The part-time teachers, who come from various industries, play an important role in helping the Target College to cultivate high-quality applied talents. In addition, as at the same date, 789, or approximately 69.8%, of the Target College's full-time teachers and 67, or approximately 14.0%, of the Target College's part-time teachers had relevant teacher qualification certificates.

For details of this non-compliance incident, the legal consequences, potential maximum penalties and the remedies and rectification measures the Target College has taken to prevent future occurrence and ensure its ongoing compliance, please refer to the paragraph headed "— Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this section.

Teacher Recruitment

The Target College recruits teachers based on the size of the current student enrolment and the number of newly admitted students at the beginning of each school year. Before hiring each teacher, it usually considers his or her prior teaching experience, academic record, graduation certificate and reference letters as well as his or her performance in the interview. The Target College also conducts background checks on the candidates during the recruiting process.

The Target College endeavours to continuously improve the quality of its education and the teacher-to-student ratio is one of the many metrics under consideration. The Target College will monitor and adjust the teacher-to-student ratio as necessary and, where practicable, based on the needs of the Target College's increasing student enrolment as well as its education plans and activities without compromising the quality of its education or profitability. The Target College intends to devote additional resources to enhance its teacher recruitment and retention efforts going forward to further improve its teacher-to-student ratio and its overall teaching quality in light of its growth in student enrolment and the complexity of its course offerings.

The Target College also endeavours to increase the number of full-time teachers with teacher qualification certificates by either recruiting the full-time teachers with such certificates or by requiring the teachers who should have obtained such certificates to attend the corresponding trainings. The human resources department of the Target College will monitor and adjust the situation as necessary and, where practicable, based on the needs of the Target College. The Board of the Target College is of the view that they have adequate measures in place to improve the situation going forward.

Teacher Training

The Target College provides the teachers with several types of trainings. Newly hired teachers usually undergo training programmes that cover, among others, teaching skills and techniques, teacher management policies, and education theories. The Target College also provides continuing training for the teachers so that they can stay abreast of the changes in students demands, new teaching theories and/or methodologies, changing testing standards and other trends. In order to give the teachers necessary exposure to the latest development of technologies in various industries, the Target College also invites industry experts to provide trainings to the teachers.

Teaching Performance Evaluations

To ensure the quality of the educational services the Target College provides to the students, the Target College periodically conducts teaching performance evaluation, which includes in-class observations, evaluation of the teachers' class preparation and/or the effectiveness of their classroom instructions. The Target College may take into consideration the performance of each teacher when making decisions regarding their compensation and their career development in the Target College.

As a private education institution, the Target College believes that it offers compensation to the teachers that is competitive relative to that offered by public schools. Compensation typically includes a base salary and a performance bonus, which is generally based on the teaching quality, performance of the students, work attendance and other factors, such as research quality.

Selection and Design of Teaching Materials and Textbooks

The Target College adheres to strict procedures for selecting teaching materials and textbooks in order to maintain its quality of the education. The Target College has implemented a set of teaching material management policies, which generally covers the selection, procurement, distribution and management of the teaching materials to be used by it. The Target College generally adopts and uses teaching materials published recently, which must comply with the basic course requirements and course syllabuses for each major offered by the Target College. In addition, the Target College typically requires the teachers to teach one course with one set of teaching materials for an extended period of time in order to ensure consistency and learning stability, until such materials are no longer suitable for its teaching requirements, which will subsequently be replaced. In terms of selection, teaching materials for a course typically must be approved by the Teaching Affairs Office (教務處) and the Vice President responsible for teaching affairs prior to procurement and distribution. The Target College also prefers using teaching materials which (i) were published by state or national authorities within the past 3 years, (ii) have received awards; and (iii) have been recommended by the state or national authorities in charge of education affairs.

In addition, the Target College permits the teachers to use teaching materials and textbooks designed and published by themselves, who generally create appropriate teaching materials based on the conditions of the Target College and the majors it offers, subject to the approval by the Teaching Affairs Office. The requirements and standards adopted by the Target College stem from established rules, procedures and regulations.

INTER-SCHOOL COOPERATION

The Target College leveraged the education capability and the desire to meet the requirements necessary for postgraduation programme application to promote its inter-school cooperation and the school network. As at the Latest Practicable Date, the Target College has entered into three cooperation agreements with third party education institutions in the PRC. For example, the Target College entered into collaboration agreements with the Qingdao University of Science and Technology (青島科技大學) and the Liaoning University of Technology (遼寧工業大學) in January 2019 and April 2020, respectively, which focus on jointly nurturing graduate students.

Inter-school cooperation programmes may include the following areas of collaboration:

- Cultural and academic exchanges, such as joint research programmes, exchange of research data, joint publication of research papers and journal articles, academic symposiums and lectures;

- Practical industry learning, such as internship opportunities, working vacation projects and summer camp programmes;

- Training, such as language enhancing classes and joint training centres; and

- Student enrolment, such as mutual promotion of admission opportunities.

THE MANAGEMENT OF THE TARGET COLLEGE

The Target College has established a centralised management system through which the Target College consistently manages certain aspects of the Target College operates, including, among others, school administration, supply procurement, market research, teaching resource sharing and campus logistics, to support and facilitate the effective implementation of the Target College's standardised comprehensive educational approach.

Teaching Resource Sharing

The Target College share teaching resources internally and externally. In terms of internal measures, the Target College opens its foundational laboratories and teaching centres to all students and members of the teaching staff, and this measure has provided convenience to students and members of the teaching staff who want to carry out experiments and practical training. Meanwhile, the Target College has also uploaded the materials of all its courses to its online platform, and this provides the students with the opportunity to acquire knowledge which falls out of their majors at their convenience. Moreover, the Target College also pools students of different majors into the same common foundational courses, which are courses that students need to take to satisfy the graduation requirements.

In terms of external measures, the Target College shares its campus facilities with its enterprise partners and allow those enterprise partners to hold employee training sessions. In return, the Target College can send the members of its teaching staff and students to these enterprise partners for training and visits.

Market Research

The Target College generally conducts market research to select, design and update its majors and curriculum offerings, as the case may be. It keeps track of and analyses its graduating students' initial employment record to keep abreast of the local employment market. Through the Target College's extensive school-enterprise business arrangements with a number of private companies, the Target College has the ability to identify key industry segments where the Target College believes that the demand for professional talent is strong. In connection with the Target College's market research, the Target College also considers the direction of the technical development and the changing requirements of professional talent sought after by potential employers. The Target College typically designates and tasks the Teaching Affairs Office of the Target College to conduct market research periodically to gauge changes in the market demand for skilled professionals. The Target College then incorporates the results of its research into an official application to create new majors at the Target College to be submitted to the local PRC educational authorities for approval. Such application usually also includes the relevant operating experience of the Target College, the availability of educational resources to open the new major, such as the sufficiency of teachers, details of the available laboratory space and libraries, and a comprehensive plan for the cultivation of professional talent.

School Administration

In order to improve the quality of the education the Target College provides, build up a better team of teachers, achieve new research breakthroughs, develop innovative talent cultivation models, and elevate its corporate efficiency, the Target College has developed and is implementing its 14th Five-Year Development Plan. Furthermore, the Board of the Target College has approved a series of policies and procedures relating to, among others, corporate governance, risk management, anti-bribery and conflicts of interest matters, which are aimed at strengthening the management and governance of the Target College.

School-Enterprise Cooperation

The Target College believes that the school-enterprise cooperation sets itself apart from its competitors. To ensure that the Target College is capable of continuously providing an abundant amount of titled training classes, targeted training classes as well as opportunities to attend the Industrial Colleges, off-campus internship, practical training and practice bases to its students, the Target College has established and assigned the Department of School-Enterprise Collaboration to develop relationships with enterprises in various industries in the PRC as well as to negotiate with and set up new programmes with these enterprises. Please refer to the paragraph headed "— Principal Business Activities — Curriculum and Degrees — School-enterprise cooperation programme" in this section for further details.

Supply Procurement

The Target College makes some of the procurement decisions regarding teaching equipment and other educational supplies for it centrally through the Logistics Management Office (後勤管理處), which the Target College believes that allows it to allocate resources effectively and efficiently without compromising the quality of education of the Target College. For each order of regular and frequently used items above the designated limit, the Logistics Management Office conducts centralised bidding and negotiation with the Target College's strategic suppliers directly. For purchases concerning electricity and water supply or cheaper items, i.e. items which cost RMB300,000 or less, which typically include office appliances and supplies, repair materials, as well as printing materials, among others, bidding is not required.

CAMPUS SERVICES

The Target College provides a series of campus services to its students, which comprises meal catering services, medical care services.

Meal Catering Services

The Target College either operates meal catering services by itself or cooperates with catering services providers, who are all Independent Third Parties for such services. In the case of cooperation with Independent Third Parties, the Target College typically enters into rental contracts with a term of five years with such catering providers, setting forth the key terms of the cooperation. Under such arrangements, the Target College provides premises required to the catering providers to obtain relevant licences and permits required by the applicable laws and regulations. As confirmed by the Board of the Target College, for the meal catering services provided by the Target College, it has obtained all material licences and permits required by the applicable laws and regulations. To ensure the food quality and safety, the Safety Management Office (安全管理辦公室) oversees the meal catering services and regularly inspect the daily operation of the dining halls at the college.

Medical Care Services

The Target College operates medical centres in the major campus and provides medical care services to its students. As confirmed by the Board of the Target College, the Target College has obtained all material licences and permits required for operating such medical centre by the applicable laws and regulations. In certain serious and emergency medical situations, the Target College will send its students to local hospitals for treatment. In addition to medical care services, on-campus psychological counselling service is also available at each of the campuses of the Target College. The counselling service provides support for the students of the Target College and helps them overcome any difficulty or concern (whether it is related to study, future career or personal matters, which they may be experiencing), develop emotional resilience and enable them to fulfil their academic and personal potential.

THE DECISION ON AMENDING THE LAW FOR PROMOTING PRIVATE EDUCATION OF THE PRC AND ITS IMPLEMENTATION RULES IN 2021

The 2016 Decision

On 7 November 2016, the 2016 Decision was approved by the Standing Committee of the NPC, which became effective on 1 September 2017. It has made certain amendments to the Law for Promoting Private Education of the PRC. Pursuant to the 2016 Decision, private schools will no longer be classified as either schools, for which the school sponsor(s) require reasonable returns or schools for which the school sponsor(s) do not require reasonable returns. Instead, the school sponsor(s) of a private school may choose for the school to be a For-profit Private School or Non-profit Private School, with the exception that the schools providing compulsory education must be non-profit. The school sponsors of For-profit Private Schools are allowed to receive income from the operation of the school and the balance of running such schools shall be handled in accordance with the provisions of the PRC Company Law and other laws and regulations. By contrast, the school sponsors of Non-profit Private Schools are prohibited from receiving income from the operation of the school and the balance of running such schools shall be only used for the operation of the schools. In addition, For-profit Private Schools are entitled to have discretion in determining the fees collected from the students in accordance with the market conditions while the fee collection of Non-profit Private Schools shall be subject to provincial government regulation. The following table sets forth the key differences between a

For-profit Private School and a Non-profit Private School under the 2016 Decision and the Implementation Rules on the Classification Registration of Private Schools (《民辦學校分類登記實施細則》).

Item	For-profit Private School	Non-profit Private School
Receipt of operating profits	Sponsors are allowed to receive operating profits, and the surplus from operations shall be handled in accordance with the provisions of the PRC Company Law and other laws and regulations	Sponsors are not allowed to receive operating profits, and all surplus from operations shall be used for operation of the school
Licences and registration	Private school operating licences (民辦學校辦學許可證), business licences	Private school operating licences and legal person certificate of private non-enterprise/the legal person certificate of public institution
Fees charged to students	Determined based on school operating costs and market demands, and no prior regulatory approvals are required	Determined pursuant to the relevant regulations promulgated by the local government authorities
Tax treatment	Preferential tax treatment a stipulated by the State	Same preferential tax treatment as public schools
Land	The school may obtain land use right by means of assignment in accordance with relevant rules	The school may obtain the land use right by means of allocation by the government as a preferential treatment
Public funding	Public funding in the form of purchase of services, student loans, scholarships, lease or transfer of unused State-owned assets	Public funding in the form of purchase of services, student loans, scholarships, lease or transfer of unused State-owned assets, government grants incentive funds and donations

Item	For-profit Private School	Non-profit Private School
Liquidation	School's remaining assets after the settlement of its indebtedness shall be handled in accordance with the provisions of the PRC Company Law	If there are still remaining school assets after the settlement of its indebtedness, such assets shall be used continuously for the operation of other non-profit school. School sponsors can apply for compensation or rewards, which shall be decided based on a number of factors

However, the 2016 Decision is silent on the specific measures regarding how existing private schools can choose to become For-profit Private Schools or Non-profit Private Schools, which, according to the 2016 Decision, shall be regulated by the corresponding laws and regulations to be promulgated by the local government authorities.

Implementation rules under the 2016 Decision

In addition to the 2016 Decision, certain implementing rules were jointly promulgated by certain government departments at the State level in December 2016, including:

- The Classification Registration Rules, which were issued on 30 December 2016, specified the competent authorities that will be responsible for the registration of For-profit Private Schools and Non-profit Private Schools. Once elected to be non-profit, a private school will have to amend its articles of association and complete the registration. Meanwhile, a For-profit Private School will be required to (i) conduct financial settlement; (ii) have the property rights of the relevant assets, such as land, school buildings and net balance be authenticated by the relevant governmental authorities; (iii) obtain new school operation permit; (iv) pay the relevant taxes and expenses; and (v) re-register with the relevant government authorities to continue the school operations. In addition, the rules for changing the registration type of private schools shall be formulated by the provincial government in accordance with relevant national legislations and in light of local conditions;

- The Implementing Measures for the Supervision and Administration of For-profit Private Schools, which were issued on 30 December 2016, specified certain requirements regarding the establishment, modification and termination of a For-profit Private School and the education and teaching related activities and financial management conducted by a For-profit Private School; and

- The Several Opinions of the State Council on Encouraging Social Groups to Engage in Education and Promoting the Healthy Development of Private Education, which were issued on 29 December 2016, specified certain policies to be followed to promote private education. The PRC Government is responsible for formulating and perfecting supporting policies for Non-profit Private Schools, including but not limited to, government subsidies, government procurement services, fund incentives, donation incentives, land allocation and tax deduction and exemption, and meanwhile may support the development of For-profit Private Schools by different ways including but not limited to government procurement services and preferential tax treatments in accordance with the economic and social development and the request for public services.

On 30 May 2018 and 12 July 2019, Opinions of the People' s Government of Shandong Province on Encouraging the Development of Education by Social Forces and Promoting the Healthy and Orderly Development of Private Education (《山東省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) (the "**Shandong Opinions**") and the Implementation Measures of Classified Registration of Private Schools in Shandong Province (《山東省民辦學校分類登記實施辦法》) (the "**Shandong Measures**") was successively promulgated by the PRC Government, pursuant to both of which, among others, private schools which were approved for establishment before 1 September 2017 shall, in principle, either convert into For-profit Private School or Non-profit Private School before 1 September 2022 and the existing private schools shall comply with the requirements for classification registration if they implement such registrations. Under the current regulations in Shandong Province, there are no provisions explicitly stipulating that an existing private school is not entitled to register as a For-profit Private School if it experienced any historical non-compliance of the laws or regulations. As at the Latest Practicable Date, both the Shandong Opinions and the Shandong Measures do not set out detailed procedures for the election and the registration of existing private schools.

The 2021 Implementation Rules

On 14 May 2021, the State Council released 2021 Implementation Rules, which has become effective on 1 September 2021, which made certain significant changes that may affect private schools.

The 2021 Implementation Rules further promote the development of private education by providing that a private school shall enjoy the relevant rights or preferential policies, which shall primarily include:

- A private school may enjoy the preferential tax policies as stipulated by the State and a Non-profit Private School may enjoy the same tax policies as a public school; and

- The local governments shall grant preferential treatments in terms of land use by means of allocation in accordance with the principle of treating Non-profit Private Schools equally as public schools, and for private schools that provide education for academic credentials, local governments may provide lands by means of bid invitation, auction or listing, assigning contracts, long-term lease or a combination of sale and rental, and may permit payment in instalments.

In addition, the 2021 Implementation Rules encourage enterprises to establish or participate in the establishment of private schools that implement vocational education in various forms, such as sole proprietorship, joint venture and cooperation, and legalise institutions that implement nationally recognised educational examinations, vocational qualification examination and vocational skill level examinations.

The 2021 Implementation Rules stipulate further provisions of the operation and management of private schools. Among others:

- A For-profit Private School shall deposit the income into a specific settlement account of its own, and a Non-profit Private School shall use the accounts filed with the competent authorities for charging fees and financial transactions;

- At the end of each financial year, a For-profit Private School shall set aside a portion of not less than 10% of its audited annual net income, and a Non-profit Private School shall set aside a portion of not less than 10% of its audited annual net increase in assets, as the development fund, which shall be used for the development of such school;

- The registered capital of a private school shall be paid in full when it is formally established and shall be compatible with its type, level and scale;

- Any social organisations or individuals shall not control private schools that provide compulsory education or Non-Profit Private Schools that provide preschool education through mergers or structure contracts;

- For any change of school sponsor of a private school, an alteration agreement shall be entered into, which shall not involve the legal property of the school, nor shall it affect the development of the school, or damage the rights and interests of the teachers and students. For any change of school sponsor of an existing private school, such school sponsor may enter into agreements with its successive school sponsor to stipulate the income from such change in accordance with its lawful rights and interests; and

- If the sponsor is a legal person under the PRC laws and regulations, its controlling shareholder(s) and the actual controller(s) shall meet the requirements stipulated by laws and administrative regulations for the establishment of a private school, and changes in such controlling shareholder(s) and actual controller(s) shall be required to make filings of record with the relevant government authorities and issue public announcements.

Implications on the Target College

Under the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》), sponsors of a private school are allowed to register and operate the school as a For-profit Private School if such school does not provide compulsory education, which is one of the legal rights granted by the law, instead of a mandatory requirement. Pursuant to the Implementing Measures on Classification Registration of Private School (《民辦學校分類登記實施細則》), the rules for changing the registration type of private schools shall be formulated by the provincial government in accordance with the relevant national legislations and in light of the local conditions. As at the Latest Practicable Date, relevant provisions of the Shandong Opinions and the Shandong Measures do not impose any additional explicit restrictions with respect to registration of classification for existing private schools, except for schools providing compulsory education. As at the Latest Practicable Date, both the Shandong Opinions and the Shandong Measures do not set out detailed procedures for the election and the registration of existing private schools. Based on the current legal framework in the PRC, including the 2016 Decision and the 2021 Implementation Rules, the Target College currently intends to register the college as a For-profit Private School. On November 17, 2021, with the assistance of the PRC Legal Advisers, the Target College consulted the MOE, being the competent authority as advised by the PRC Legal Advisers to confirm the matters relating to educational regulations and policies relevant to the Target College. The Target College was advised by the MOE that (i) school sponsors may choose for the schools to be for-profit private schools or non-profit private schools at their own discretion, except for the schools providing compulsory education, and no other requirements or restrictions have been promulgated at the State level; (ii) the Target College is entitled to apply to choose to establish as either non-profit or for-profit once the relevant guidelines are issued. Based on the foregoing, the PRC Legal Advisers are of the view that there is no material legal impediment for the Target College to register as a for-profit private school in the future on the condition that the Target College could submit the application by the time limit, go through the formalities as required and satisfy the requirements under the then applicable PRC laws and regulations. However, it cannot assure that the Target College will be able to satisfy such requirements and consequently, the Target College may fail to register itself as a For-Profit Private School. Pursuant to the Shandong Measures, before the classification registration of the Target College is completed, it shall be managed according to its original legal person status, i.e. a Non-Profit Private School. Since the relevant laws and regulations only specified two categories for existing private schools to choose to register, i.e. Non-Profit Private School and For-Profit Private School as at the Latest Practicable Date, under the current applicable laws and regulations, if the Target College fails to register itself as a For-Profit Private School within the deadline specified by the relevant governmental authorities in Shandong Province, the Target College may be further registered as a Non-Profit Private School. As advised by the PRC Legal Advisers, under the 2016 Decision and the 2021 Implementation Rules, there are no provisions explicitly stipulating that failure to register the Target College as a For-Profit Private School or a Non-Profit Private School would be subject to any penalties. For key differences between For-Profit Private Schools and Non-Profit Private Schools, please refer to the paragraph headed "— The decision on amending the law for promoting private education of the PRC and its implementation rules in 2021" in this section. The Target College will maintain regular communications with the relevant competent authorities and consult its legal advisers as to PRC laws from time to time to keep itself abreast of the latest regulatory development in this regard. The Target College intends to formulate an action plan with steps to be implemented for registration as a for-profit private school as and when further details regarding the registration is available. Periodic updates will also be provided in the Company's annual and interim reports after Completion to inform Shareholders and potential investors of (i) regulatory updates in relation to the registration of the Target College as a for-profit private school, and (ii), where applicable, the action plan together with steps undertaken for the purpose of registering the Target College as a for-profit private school. Please also refer to the section headed "Risk Factors Relating to the Target College — Risks Relating to the Business and the Industry — The Target College is subject to uncertainties brought by the 2016 Decision and the 2021 Implementation Rules and other related implementation rules" in this circular for the uncertainties brought by the 2016 Decision and the 2021 Implementation Rules, which may have an adverse impact on the development, operation and management of the Target College.

In addition to the implication described above, the overall impact of the 2016 Decision and 2021 Implementation Rules on the business of the Target College is as follows:

- *Structured Contracts*: According to clause 13 of the 2021 Implementation Rules, any social organisations or individuals shall not control private schools that provide compulsory education or Non-Profit Private Schools that provide preschool education through mergers or structured contracts. However, given that the Target College does not provide compulsory education or preschool education, we are not explicitly prohibited from acquiring or controlling the Target College (either to be registered as a For-Profit Private School or Non-Profit Private School), which provides higher education services, through structured contracts under the 2021 Implementation Rules. Structured Contracts may be regarded as transactions of the Target College with interested parties and it may incur compliance costs in relation to establishing disclosure mechanisms and undergoing review and audit by the relevant government authorities. In October 2021, with the assistance of the PRC Legal Advisers, the Target College consulted the Education Authority, and the Target College was advised by the Education Authority that the execution of the Contractual Arrangements does not require approval from the education authorities.

  As at the Latest Practicable Date, except for the provisions with respect to the transactions with interested parties on an open, fair and impartial basis without damaging the State's interests, the interests of the schools or the rights and interests of the teachers and students, no specific requirement has been promulgated regarding the existing Structured Contracts to be entered into by the relevant parties in accordance with the 2021 Implementation Rules. Nevertheless, assuming (i) the Target College is able to successfully register as a For-profit Private School under the 2016 Decision and the 2021 Implementation Rules; (ii) the Structured Contracts will be entered into on an open, fair and impartial basis; and (iii) the Target College is capable of establishing disclosure mechanisms in relation to the transactions with interested parties according to the then applicable PRC laws, the PRC Legal Advisers advised that the 2021 Implementation Rules do not explicitly stipulate additional requirements with respect to the Structured Contracts as compared to the 2016 Decision. Further, in light of the following, the Target College is of the view that nothing has come to their attention that the proposed terms of the Target College's Structured Contracts would damage the State's interests, the interests of the college or the rights or interests of students and teachers or would otherwise render the Structured Contracts not open, fair or impartial.

- *Regulatory filing and financial reporting*: As at the Latest Practicable Date, no specific requirement has been promulgated under the 2016 Decision and the 2021 Implementation Rules regarding the information disclosure mechanism, including, but not limited to, the requirements on financial reporting. However, compliance costs may be incurred due to the specific implementation rules of disclosure mechanisms promulgated in the future;

- *Financial settlement*: According to the applicable PRC laws and regulations, if an existing private school choose to register as For-profit Private School, it shall make financial settlement, clarify the ownership of the school's land, buildings and accumulations and pay the relevant taxes and fees, the capital contribution of the sponsor before the liquidation shall be the paid-in capital, the asset appreciation, school accumulation, creditor or debtor's rights and obligations shall be borne by the private school after the re-registration unless otherwise specified, the private school shall also apply for registering as a For-profit Private School and obtain the permit for operating a private school, and then register with the competent government authorities. Moreover, with respect to other higher education institutions in the PRC which were in the process of registering to become for-profit private schools and whose information was publicly available as at the Latest Practicable Date, the Target College have not observed any material additional costs incurred in respect of financial settlement by such higher education institutions. In light of the foregoing, as at the Latest Practicable Date, the Target College were not aware of any material additional costs that the Target College may incur as a result of the financial settlement and that the operation of the Target College during the financial settlement process is not expected to be affected;

- *Current licences for school operations*: After completing the financial settlement, the Target College is obliged to reapply for new licences for school operations and apply to change its registration with the relevant administrative department for industry and commerce in accordance with the relevant PRC laws, as advised by the PRC Legal Advisors. Given that the other licences necessary to conduct their operations will be materially similar to the existing licences held by the Target College as at the Latest Practicable Date, and having regard to the Target College's prior successful track record in obtaining such licences, our Directors are not aware of any legal prohibition that would prevent the Target College from reapplying for such licences. In addition, given the licences necessary for For-Profit Private Schools to conduct their operations are materially similar to the existing licences held by the Target College as at the Latest Practicable Date, assuming the application costs for such licences remain the same, the Target College are not aware of any material application costs that the Target College may incur as a result of the reapplication of such licences. Accordingly, the Target College are of the view that the requirements for the Target College to reapply for new licences or apply to change its registration under the 2016 Decision and the 2021 Implementation Rules will not adversely affect the Target College's business and operations;

- *Financing arrangements*: As at the Latest Practicable Date, no specific requirement has been stipulated under the 2016 Decision and the 2021 Implementation Rules to assess the risk tolerance of the private schools in accordance with current applicable laws and regulations. Accordingly, the Target College are of the view that the 2016 Decision and the 2021 Implementation Rules currently do not have any provisions that will directly accelerate the repayment obligations under the existing bank facilities, nor are there any provision prohibiting the Target College from obtaining new bank facilities. As at the Latest Practicable Date, the Target College does not have any bank borrowing or other borrowing; and

- *Tax and other impact*: As at the Latest Practicable Date, there was an absence of other detailed implementation rules which remain to be promulgated by the relevant local governments under the 2016 Decision and the 2021 Implementation Rules for clarification on the uncertainties in the interpretation and implementation of the 2016 Decision with respect to various aspects of the operation of a private school, in particular, regulations on the fees charged by Non-Profit Private Schools and respective preferential tax treatments that may be enjoyed by a For-Profit Private School and a Non-Profit Private School, and to provide an implementation timetable; and

- *Registered capital*: The 2021 Implementation Rules require that the registered capital of a private school shall be paid in full when it is formally established and shall be compatible with its type, level and scale, but do not stipulate the minimum amount of such registered capital. As at the Latest Practicable Date, the registered capital of the Target College of RMB200.0 million has been paid in full.

As advised by the PRC Legal Advisors, there remain uncertainties in the interpretation and application of the 2021 Implementation Rules with respect to various aspects of the operations and benefits enjoyed by the Target College after converting to a For-Profit Private School, such as the preferential tax treatment. Save for the abovementioned uncertainties, the Target College considered that there is no material adverse impact on the Target College's operations and financial conditions in relation to the 2021 Implementation Rules.

Internal Control Measures of the Target College

As part of the Target College's measures to mitigate its compliance risks in relation to the 2016 Decision, the 2021 Implementation Rules and other relevant legal and regulatory developments, including the establishment of policy and procedures, provide regular training to relevant staff and monitor the updates of relevant rules and regulations, the Target College has assigned the responsibility to the Principal's Office (校長辦公室) to pay close attention to the developments of these policies and regulations and the operation of the Target College. They will report to the Board of the Target College on a regular basis and the Target College will promptly consult with its legal advisers as and when required. The Target College will ensure that any decision will be made on a fully-informed basis by the Board of the Target College.

CUSTOMERS AND SUPPLIERS

The Target College's customers primarily consist of students. The Target College did not have any single customer who accounted for more than 5% of the revenue for each of the years ended 31 December 2019, 2020 and 2021 and the three months ended 31 March 2022.

The Target College's suppliers primarily consist of suppliers of daily-consumables and booksellers. For the years ended 31 December 2019, 2020 and 2021 and the three months ended 31 March 2022, purchases from the Target College's five largest suppliers amounted to approximately RMB54.8 million, RMB53.6 million, RMB65.1 million and RMB18.3 million, respectively, accounting for approximately 60.2%, 60.1%, 54.1% and 83.7% of the Target College's total purchases for the same periods. For the years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2022, purchases from the Target College's largest supplier amounted to approximately RMB26.2 million, RMB25.1 million, RMB25.9 million and RMB8.6 million, respectively, accounting for approximately 28.8%, 28.1%, 21.5% and 39.5% of the Target College's total purchases for the same periods. Except for Nanshan Group and Longkou Nanshan, all of the Target College's top five largest suppliers during the Track Record Period were Independent Third Parties, and none of the Target College's Directors, their respective close associates, or any Shareholder who, to the knowledge of the Target College's Directors, owns more than 5% of the Target College's issued capital, had any interest in these suppliers during the Track Record Period and up to the Latest Practicable Date.

The purchase from the Target College's largest supplier, Nanshan Group, for the years ended 31 December 2019, 2020 and 2021 and for the three months ended 31 March 2022 accounted for approximately 28.8%, 28.1%, 21.5% and 39.5% of the Target College's total purchases for the same periods, which was primarily due to its procurement of electricity and natural gas from the Nanshan Group for its daily consumption and operation and also goods including clothes such as staff uniforms, furniture and fixtures, gifts and souvenirs and other products; and services including repairing services, gardening services, venue rental services and laboratory testing services.

Longkou Nanshan was the Target College's second largest supplier for the years ended 31 December 2019, 2020 and 2021 and the third largest supplier for the three months ended 31 March 2022, respectively, the purchase from which accounted for approximately 16.0%, 12.6%, 12.7% and 9.6% of the Target College's total purchases for the same periods, which was primarily due to its procurement of heating supply and water supply from the Longkou Nanshan for its daily consumption and operation and also goods including clothes such as staff uniforms, furniture and fixtures, gifts and souvenirs and other products; and services including repairing services, gardening services, venue rental services and laboratory testing services.

As confirmed by the Board of the Target College, the abovementioned transactions have been conducted (i) in the ordinary and usual course of the Target College's business; (ii) on normal commercial terms or better; and (iii) in accordance with the respective terms that are fair and reasonable and in the interests of the Target College.

The following table sets forth details of the top five suppliers of the Target College during the Track Record Period:

For the Year ended 31 December 2019

Rank	Supplier	Principal business	Year(s) of business relationship	Typical credit term	Transaction amount *(RMB'000)*	As percentage of the Target College's total purchases
1.	Nanshan Group	Conglomerate	17	Three months	26,208.9	28.8
2.	Longkou Nanshan	Catering, exhibition, hospitality and sales of construction materials	11	Three months	14,515.3	16.0
3.	Qingdao Electronic Benteng Technology Books Co., Limited* (青島電子奔騰科技圖書有限公司)	Retail sale and wholesale of books	Three	Two months	6,649.1	7.3
4.	Shandong Zeru Cultural Media Co., Limited* (山東澤儒文化傳媒有限公司)	Retail sale and wholesale of books	Four	Two months	4,098.7	4.5
5.	Song Shaoxin* (宋邵欣)	Retail sale and wholesale of luggage	One	One month	3,281.9	3.6
Total						**60.2**

For the Year ended 31 December 2020

Rank	Supplier	Principal business	Year(s) of business relationship	Typical credit term	Transaction amount *(RMB'000)*	As percentage of the Target College's total purchases
1.	Nanshan Group	Conglomerate	17	Three months	25,108.8	28.1
2.	Longkou Nanshan	Catering, exhibition, hospitality and sales of construction materials	11	Three months	11,277.3	12.6
3.	Shandong Zeru Cultural Media Co., Limited* (山東澤儒文化傳媒有限公司)	Retail sale and wholesale of books	Four	Two months	9,531.0	10.7
4.	Longkou Shenglong Trading Co., Limited* (龍口盛龍貿易有限公司)	Sale of general utensils	Nine	Two months	5,218.9	5.9
5.	Yantai Juntong Huada Vehicle Sales Co., Limited* (煙台君通華達汽車銷售有限公司)	Sale of motor vehicles	One	Two months	2,471.1	2.8
Total						**60.1**

For the Year ended 31 December 2021

Rank	Supplier	Principal business	Year(s) of business relationship	Typical credit term	Transaction amount *(RMB '000)*	As percentage of the Target College's total purchases
1.	Nanshan Group	Conglomerate	17	Three months	25,875.0	21.5
2.	Longkou Nanshan	Catering, exhibition, hospitality and sales of construction materials	11	Three months	15,272.0	12.7
3.	Shandong Zeru Cultural Media Co., Limited* (山東澤儒文化傳媒有限公司)	Retail sale and wholesale of books	Four	Two months	10,118.6	8.4
4.	Shandong Nanshan International Flight Co., Limited* (山東南山國際飛行有限公司)	Aviation-related service and training	Six	Three months	9,145.9	7.6
5.	Longkou City Zhenghe Commerce and Trading Co., Ltd* (龍口市正和商貿有限公司)	Sale of general utensils	Two	Two months	4,684.2	3.9
Total						**54.1**

For the Three Months ended 31 March 2022

Rank	Supplier	Principal business	Year(s) of business relationship	Typical credit term	Transaction amount *(RMB'000)*	As percentage of the Target College's total purchases
1.	Nanshan Group	Conglomerate	17	Three months	8,628.1	39.5
2.	Shandong Zeru Cultural Media Co., Limited* (山東澤儒文化傳媒有限公司)	Retail sale and wholesale of books	Four	Two months	4,978.7	22.8
3.	Longkou Nanshan	Catering, exhibition, hospitality and sales of construction materials	11	Three months	2,091.2	9.6
4.	Beijing Tiannuo Shuyuan Cultural Development Co., Limited* (北京天諾書源文化發展有限公司)	Retail sale and wholesale of books	Two	Seven months	1,869.8	8.6
5.	Longkou Yichang Trading Co., Limited* (龍口益昌經貿有限公司)	Sale of general utensils	Five	Two months	705.1	3.2
Total						**83.7**

QUALITY CONTROL

The Target College believes that the provision of quality educational services is important for the Target College's business and its continuous development. The Target College has formulated a comprehensive set of quality control measures and updates these measures from time to time to reflect the latest development of regulatory and industrial requirements and the specifications from the students. The Target College's Principal's Office and the Quality Control and Evaluation Office (質量控制與評估處) are both responsible for ensuring the quality of the educational services provided by the Target College. With respect to quality control of human resources, the Principal's Office is responsible for the overall management of the division of human resources and the Quality Control and Evaluation Office is mainly responsible for monitoring the teaching quality.

LICENCES

The PRC Legal Adviser has advised that during the Track Record Period and up to the Latest Practicable Date, except for the non-compliance incidents as disclosed in this circular and the fact that the Target College is in the process of renewing the Permit for Running a Private School (民辦學校辦學許可證), the Target College had obtained all licences, permits, approvals and certificates necessary to conduct its business operations in all material respects from the relevant government authorities in the PRC and such licences, permits, approvals and certificates remained in full effect for the college the Target College operates.

Licence/Permit*	Holder	Granting authority	Grant date	Expiry date
Registration Certificate of Private Non-enterprise Units (民辦非企業單位登記證書)	Target College	Department of Civil Affairs of Shandong Province (山東省民政廳)	24 June 2020	23 June 2024
Permit for Running a Private School	Target College	MOE	2018	2021

Note:

* To maintain each of the Target College's operating licence, it is required to pass an annual inspection regardless of whether such licence bears an expiry date or not. As at the Latest Practicable Date, the Target College confirms it has passed the latest annual inspection and is in the process of renewing the Permit for Running a Private School. The current renewal process has been interrupted due to the COVID-19 outbreak in the PRC, and it has been agreed with the relevant governmental authorities that the renewal process be continued after the relaxation of quarantine measures due to COVID-19. Target College confirms that it expects to receive its new Permit for Running a Private School by the 3rd quarter of 2022.

EMPLOYEES

As at 31 May 2022, the Target College had 1,520 employees. The following table sets forth the total number of employees by function as at 31 May 2022:

Function	Number of employees	% of total
Teachers*	1,131	74.4
Management staff	67	4.4
Other supporting staff	322	21.2
Total	1,520	100.0

Note:

* Teachers with administrative and management responsibilities were not included in "Teachers".

As required by the PRC laws and regulations, the Target College participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance, work-related injury insurance and unemployment insurance. It has established a labour union. The Target College believes that it maintains a good working relationship with its employees, and it has not experienced any material labour disputes during the Track Record Period. Nevertheless, during the Track Record Period, the Target College did not make full contributions to the social insurance plans and housing provident fund. Please refer to the section headed "— Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this section for further details.

PROPERTIES

During the Track Record Period, the Target College operated two campuses in Yantai City, Shandong Province, namely the Donghai Campus (東海校區) and the Nanshan Campus (南山校區). As at the Latest Practicable Date, the Target College owned and occupied three parcels of land at the Donghai Campus in Yantai City, Shandong Province, the PRC with a total gross site area of approximately 1,655,853 sq.m. On the aforementioned parcels of land the Target College owned 114 buildings or property units with a total gross floor area of approximately 595,592.4 sq.m. For Nanshan Campus, the Target College owned one parcel of land in Yantai City, Shandong Province, the PRC with a total gross site area of approximately 35,171 sq.m. with one building with a gross floor area of approximately 35,796.3 sq.m..

As at the same date, the Target College and Shandong Nanshan Construction and Development Ltd.* (山東南山建設發展股份有限公司), which is owned as to approximately 63.7% by Mr. Song, had entered into a sale and purchase agreement on 18 March 2009 for one residential property located at No. 101, 1st floor, 1st Unit, No. 20, 20th Block of Yihe Residential quarter of Dongjiang Village in Longkou City, with a total gross site area of approximately 151.4 sq.m., and its corresponding carpark with a total gross site area of approximately 27.4 sq.m. As confirmed by the Board of the Target College, as at the Latest Practicable Date, the Target College has fully paid the corresponding consideration for the aforementioned residential property and its corresponding carpark and they are not used for education purpose. The Target College confirms that it has applied for the building ownership certificate for this residential property together with its carpark as at the Latest Practicable Date.

Among the three parcels of land owned or occupied by the Target College at the Donghai Campus, as at the Latest Practicable Date, the Target College occupied one parcel of land with a total gross site area of approximately 444,058.0 sq.m., for which the Target College had not obtained the land use right certificate and such parcel of land had been put into use for construction of buildings for teaching activities, student dormitories and gymnasium. For details of this non-compliance incident, the legal consequences and potential maximum penalties and the remedies and rectification measures the Target College has taken to prevent future breach and ensure ongoing compliance, please refer to the paragraph headed "— Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this section.

As at the same date, the Target College occupied twenty buildings located at the aforementioned parcel of land without obtaining the land use right certificate in the Donghai Campus with a total gross floor area of approximately 61,555.7 sq.m., for which the Target College had not obtained the building ownership certificates for which the Target College had commenced construction without obtaining the construction planning permit (建設工程規劃許可證). As for eight buildings with a total gross floor area of approximately 59,942.8 sq.m., the Target College (i) had commenced construction without obtaining the fire control design review and approval (消防設計審查批准) and the construction work commencement permit (建設工程施工許可證); and (ii) put such buildings into use without passing the construction completion inspection (建設項目竣工驗收) and fire control completion acceptance check (消防驗收). The Target College therefore has not obtained the building ownership certificates for such buildings as at the Latest Practicable Date. For details of these non-compliance incidents, the legal consequences and potential maximum penalties and the remedies and rectification measures the Target College has taken to prevent future breach and ensure ongoing compliance, please refer to the paragraph headed "— Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this section.

Except for the property interests described in the property valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited set out in Appendix IV to this circular, no single property interest that forms part of the Target College's non-property activities has a carrying amount of 15% or more of total assets pursuant to Rule 5.01B(2)(b) of the Listing Rules. The total market value of the Target College's property interests as at 31 May 2022 was approximately RMB1,147.1 million, according to the property valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

Owned Properties

Land

As at the 31 May 2022, the Target College owned land use right for three parcels of land with a gross site area of approximately 1,246,966.0 sq.m. The following table sets forth a summary of land use rights the Target College owned as at the 31 May 2022:

No.	Land use right owner	Description/Location	Gross site area *(sq.m.)*	Existing use	Expiry date
1	Target College	Donghai High-tech Industrial Development Zone, Xufu Street, Longkou City, Shandong Province	40,679.0	Educational-related	18 October 2055
2	Target College	Donghai Tourism and Resorts Zone, Longkou City, Yantai City, Shandong Province	1,171,116.0	Educational-related	19 December 2055
		Donghai Campus subtotal	**1,211,795.0**		
3	Target College	Nanshan Golf South Zone, Songjia Village, Dongjiang Town	35,171.0	Cultural facilities	30 December 2043
		Nanshan Campus subtotal	**35,171.0**		

Buildings/Property Units

As at 31 May 2022, the Target College owned 116 buildings or property units with a total area of approximately 631,567.5 sq.m. 114 of such buildings or property units are located in the Donghai Campus, with the rest located in either Dongjiang Town, Longkou City or Nanshan Campus. Meanwhile, as at 31 May 2022, the Target College has already obtained building ownership certificates for 95 of such buildings or property units.

As at 31 May 2022, the gross floor area/gross site area of such buildings or property units located in the Donghai Campus amounted to approximately 595,592.4 sq.m. and the gross floor area/gross site area of such buildings or property units located in Dongjiang Town, Longkou City and Nanshan Campus amounted to 178.8 sq.m. and 35,796.3 sq.m., respectively.

The following table sets forth the statistics of such buildings or property units owned by the Target College as at 31 May 2022:

Campus	Number of buildings/ property units owned	GFA of buildings with title certificates *(sq.m.)*
Donghai Campus		
Education-related usage (such as teaching facilities and library)	20	234,459.2
Residential purpose (such as dormitory, villa and apartment), public bath and canteen	56	279,224.5
Office	2	17,935.9
Ancillary facilities	16	2,417.1
Subtotal	94	534,036.7
Nanshan Campus		
Education-related usage (teaching facilities)	1	35,796.3
Total	95	569,833.0

Campus	Number of buildings/ property units owned	GFA of buildings without title certificates *(sq.m.)*
Donghai Campus		
Education-related usage (such as teaching facilities)	1	20,981.5
Residential purpose (such as dormitory)	6	33,352.6
Stadium	1	5,608.7
Ancillary facilities	12	1,612.8
Subtotal	20	61,555.6
Residential carpark	1	178.8
Total	21	61,734.4

Buildings or property units which the Target College had obtained building ownership certificates

As at 31 May 2022, the Target College owned 95 buildings or property units with a total gross floor area of approximately 569,833.0 sq.m. for all of which the Target College had received the building ownership certificates. Among such 95 buildings or property units the Target College owns, 21 of them are designed for education-related usage, while the 56 buildings or property units are designed for residential purpose, dormitory and canteen and 18 buildings or property units are designed for office and ancillary facilities.

The following table sets forth the details of the Target College's owned buildings or property units, which the Target College had obtained building ownership certificates, as at 31 May 2022:

No	Owner of Property	Land Use Term	Gross Floor Area/Gross Site Area *(sq.m.)*	Location	Usage of the Property
1	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
2	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
3	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
4	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
5	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
6	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
7	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
8	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
9	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
10	Target College	Till 19 December 2055	5,550.7	Donghai Campus	Dormitory
11	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
12	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
13	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
14	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
15	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
16	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
17	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
18	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
19	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
20	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
21	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
22	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
23	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
24	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
25	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
26	Target College	Till 19 December 2055	5,561.0	Donghai Campus	Dormitory
27	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
28	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
29	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
30	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
31	Target College	Till 19 December 2055	5,820.6	Donghai Campus	Dormitory
32	Target College	Till 19 December 2055	18,872.9	Donghai Campus	Teaching
33	Target College	Till 19 December 2055	9,370.6	Donghai Campus	Teaching
34	Target College	Till 19 December 2055	21,298.7	Donghai Campus	Teaching

No	Owner of Property	Land Use Term	Gross Floor Area/Gross Site Area *(sq.m.)*	Location	Usage of the Property
35	Target College	Till 19 December 2055	20,849.0	Donghai Campus	Teaching
36	Target College	Till 19 December 2055	20,849.0	Donghai Campus	Teaching
37	Target College	Till 19 December 2055	21,970.3	Donghai Campus	Teaching
38	Target College	Till 19 December 2055	8,610.4	Donghai Campus	Office
39	Target College	Till 19 December 2055	4,537.9	Donghai Campus	Teaching
40	Target College	Till 19 December 2055	2,099.9	Donghai Campus	Teaching
41	Target College	Till 19 December 2055	4,724.8	Donghai Campus	Teaching
42	Target College	Till 19 December 2055	2,705.3	Donghai Campus	Teaching
43	Target College	Till 19 December 2055	30,792.4	Donghai Campus	Library
44	Target College	Till 19 December 2055	4,574.4	Donghai Campus	Teaching
45	Target College	Till 19 December 2055	2,442.3	Donghai Campus	Teaching
46	Target College	Till 19 December 2055	2,442.3	Donghai Campus	Teaching
47	Target College	Till 19 December 2055	2,427.0	Donghai Campus	Teaching
48	Target College	Till 19 December 2055	18,512.2	Donghai Campus	Teaching
49	Target College	Till 19 December 2055	18,872.9	Donghai Campus	Teaching
50	Target College	Till 19 December 2055	20,848.3	Donghai Campus	Teaching
51	Target College	Till 19 December 2055	22,109.1	Donghai Campus	Canteen
52	Target College	Till 19 December 2055	16,658.5	Donghai Campus	Canteen
53	Target College	Till 19 December 2055	823.7	Donghai Campus	Public bath
54	Target College	Till 19 December 2055	1,036.1	Donghai Campus	Public bath
55	Target College	Till 19 December 2055	329.0	Donghai Campus	Villa
56	Target College	Till 19 December 2055	329.0	Donghai Campus	Villa
57	Target College	Till 19 December 2055	329.0	Donghai Campus	Villa
58	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
59	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
60	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
61	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
62	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
63	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
64	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
65	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
66	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
67	Target College	Till 19 December 2055	185.4	Donghai Campus	Villa
68	Target College	Till 19 December 2055	9,325.5	Donghai Campus	Office
69	Target College	Till 19 December 2055	12,498.0	Donghai Campus	Apartment
70	Target College	Till 19 December 2055	962.5	Donghai Campus	Canteen
71	Target College	Till 19 December 2055	568.0	Donghai Campus	Teaching
72	Target College	Till 19 December 2055	5,700.8	Donghai Campus	Teaching
73	Target College	Till 19 December 2055	124.3	Donghai Campus	Ancillary facilities
74	Target College	Till 19 December 2055	107.9	Donghai Campus	Ancillary facilities
75	Target College	Till 19 December 2055	194.7	Donghai Campus	Ancillary facilities
76	Target College	Till 19 December 2055	57.5	Donghai Campus	Ancillary facilities
77	Target College	Till 19 December 2055	384.1	Donghai Campus	Ancillary facilities
78	Target College	Till 19 December 2055	109.5	Donghai Campus	Ancillary facilities
79	Target College	Till 19 December 2055	122.4	Donghai Campus	Ancillary facilities
80	Target College	Till 19 December 2055	70.4	Donghai Campus	Ancillary facilities
81	Target College	Till 19 December 2055	244.7	Donghai Campus	Ancillary facilities
82	Target College	Till 19 December 2055	37.0	Donghai Campus	Ancillary facilities
83	Target College	Till 19 December 2055	248.0	Donghai Campus	Ancillary facilities

No	Owner of Property	Land Use Term	Gross Floor Area/Gross Site Area *(sq.m.)*	Location	Usage of the Property
84	Target College	Till 19 December 2055	30.6	Donghai Campus	Ancillary facilities
85	Target College	Till 19 December 2055	122.5	Donghai Campus	Ancillary facilities
86	Target College	Till 19 December 2055	122.2	Donghai Campus	Ancillary facilities
87	Target College	Till 19 December 2055	122.5	Donghai Campus	Ancillary facilities
88	Target College	Till 19 December 2055	319.1	Donghai Campus	Ancillary facilities
89	Target College	Till 18 October 2055	5,820.5	Donghai Campus	Dormitory
90	Target College	Till 18 October 2055	5,561.0	Donghai Campus	Dormitory
91	Target College	Till 18 October 2055	5,561.0	Donghai Campus	Dormitory
92	Target College	Till 18 October 2055	5,561.0	Donghai Campus	Dormitory
93	Target College	Till 18 October 2055	5,561.0	Donghai Campus	Dormitory
94	Target College	Till 18 October 2055	16,658.5	Donghai Campus	Canteen
95	Target College	Till 30 December 2043	35,796.3	Nanshan Campus	Teaching
		Total	569,833.0		

Buildings or property units which the Target College had not obtained building ownership certificates and/or land use right certificates

As at 31 May 2022, the Target College occupies 21 buildings or property units with a total area of approximately 61,734.4 sq.m. for all of which the Target College had yet to receive the building ownership certificates and/or land use right certificates. As for 20 buildings with a total gross floor area of approximately 61,555.6 sq.m., the Target College had commenced construction without obtaining the construction planning permit (建設工程規劃許可證). As for eight buildings or property units which were constructed by the Target College, with a total area of approximately 59,942.8 sq.m., had been constructed without obtaining (i) the construction work commencement permit (建設工程施工許可證) and (ii) the fire control design review and approval (消防設計審查批准), and had been put into use without passing the construction completion inspection (建設項目竣工驗收), and fire control completion acceptance check (消防驗收). For details of these non-compliance incidents, the legal consequences and potential maximum penalties and the remedies and rectification measures the Target College has taken to prevent future breach and ensure ongoing compliance, please refer to the paragraph headed "— Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this section. As for the remaining one building designed for residential and carpark purpose was purchased from Shandong Nanshan Construction and Development Ltd..

The following table sets forth the details of the buildings or property units purchased or constructed by the Target College, but had been put into use even though the building ownership certificates and/or land use right certificates had not been obtained at 31 May 2022:

No	Purchaser/ Constructor of Property	Land Use Term	Gross Floor Area/Gross Site Area *(sq.m.)*	Location	Usage of Property
1.	Target College	Undetermined	5,558.8	Donghai Campus	Dormitory
2.	Target College	Undetermined	5,558.8	Donghai Campus	Dormitory
3.	Target College	Undetermined	5,558.8	Donghai Campus	Dormitory
4.	Target College	Undetermined	5,558.8	Donghai Campus	Dormitory
5.	Target College	Undetermined	5,558.8	Donghai Campus	Dormitory
6.	Target College	Undetermined	5,558.8	Donghai Campus	Dormitory
7.	Target College	Undetermined	20,981.5	Donghai Campus	Teaching
8.	Target College	Undetermined	5,608.7	Donghai Campus	Stadium
9.	Target College	Undetermined	178.8	Dongjiang Town, Longkou City	Residential and Carpark
10.	Target College	Undetermined	126.0	Donghai Campus	Ancillary facilities
11.	Target College	Undetermined	79.0	Donghai Campus	Ancillary facilities
12.	Target College	Undetermined	428.0	Donghai Campus	Ancillary facilities
13.	Target College	Undetermined	233.0	Donghai Campus	Ancillary facilities
14.	Target College	Undetermined	64.7	Donghai Campus	Ancillary facilities
15.	Target College	Undetermined	106.1	Donghai Campus	Ancillary facilities
16.	Target College	Undetermined	146.9	Donghai Campus	Ancillary facilities
17.	Target College	Undetermined	106.6	Donghai Campus	Ancillary facilities
18.	Target College	Undetermined	177.1	Donghai Campus	Ancillary facilities
19.	Target College	Undetermined	32.0	Donghai Campus	Ancillary facilities
20.	Target College	Undetermined	109.4	Donghai Campus	Ancillary facilities
21.	Target College	Undetermined	4.0	Donghai Campus	Ancillary facilities
		Total	61,734.4		

Other Non-compliance Incidents of the Target College's Buildings

As at the Latest Practicable Date, the Target College did not complete the fire control design review and approval (消防設計審查批准) and fire control completion acceptance check (消防驗收) for 74 owned buildings or property units with a total gross floor area of approximately 624,518.2 sq.m., which had been put into use. For details of these non-compliance incidents, the legal consequences and potential maximum penalties, as well as the remedies and rectification measures the Target College has taken to prevent future occurrence and ensure the Target College's ongoing compliance, please refer to the paragraph headed "— Legal Proceedings and Compliance" in this section .

Leased Properties

As at the Latest Practicable Date, the Target College leased 26 properties with a total area of approximately 192,325.8 sq.m. from the Nanshan Group pursuant to a leasing agreement entered into by the Target College and the Nanshan Group on 1 December 2021 for a period from 1 December 2021 to 30 November 2031.

For the seven properties among the abovementioned 26 leased properties, which has been used for teaching activities, dormitories, sports square, carpark and library with a total area of approximately 57,014.0 sq.m., the Target College's landlord, the Nanshan Group, has not provided the Target College the relevant building ownership certificates. As advised by the PRC Legal Advisers, in the event the Nanshan Group does not have a valid building ownership certificates, the relevant lease arrangements in the agreement may be deemed invalid or the Target College may face challenges from property owners or other third parties to the lessor's rights. In the event this occurs, the Target College may be forced to relocate the affected premises and incur additional expenses. Please see the section headed "Risk Factors Relating to the Target College — Risks Relating to the Business and the Industry — Our contractual and legal right to lease certain properties could be adversely challenged by property owners or other third parties" in this circular for further details. As at the Latest Practicable Date, as confirmed by the Board of the Target College, the Target College was not aware of any actions, claims or investigations being contemplated by any third party with respect to possible defects in our leased properties.

The following table sets forth the details of the Target College's leased properties as at 31 May 2022.

No.	Owner of Property	Lessee	Lease Term	Gross Floor Area/ Gross Site Area (*sq.m.*)	Location	Usage of the Property
1	Nanshan Group	Target College	Till 30 November 2031	2,458.9	Dongjiang Town, Longkou City	Dormitory
2	Nanshan Group	Target College	Till 30 November 2031	8,487.1	Dongjiang Town, Longkou City	Dormitory
3	Nanshan Group	Target College	Till 30 November 2031	2,929.4	Dongjiang Town, Longkou City	Canteen
4	Nanshan Group	Target College	Till 30 November 2031	36,013.1	Dongjiang Town, Longkou City	Dormitory
5	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Dormitory
6	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Dormitory
7	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Dormitory
8	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Dormitory
9	Nanshan Group	Target College	Till 30 November 2031	54,854.5	Dongjiang Town, Longkou City	Administrative
10	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Teaching
11	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Teaching
12	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Teaching
13	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Teaching

No.	Owner of Property	Lessee	Lease Term	Gross Floor Area/ Gross Site Area *(sq.m.)*	Location	Usage of the Property
14	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Teaching
15	Nanshan Group	Target College	Till 30 November 2031		Dongjiang Town, Longkou City	Teaching
16	Nanshan Group	Target College	Till 30 November 2031	17,607.8	Dongjiang Town, Longkou City	Teaching
17	Nanshan Group	Target College	Till 30 November 2031	814.3	Dongjiang Town, Longkou City	Public bath
18	Nanshan Group	Target College	Till 30 November 2031	6,192.5	Dongjiang Town, Longkou City	Canteen
19	Nanshan Group	Target College	Till 30 November 2031	5,954.1	Dongjiang Town, Longkou City	Dormitory
20	Nanshan Group	Target College	Till 30 November 2031	5,516.0	Dongjiang Town, Longkou City	Dormitory
21	Nanshan Group	Target College	Till 30 November 2031	3,400.0	Dongjiang Town, Longkou City	Teaching
22	Nanshan Group	Target College	Till 30 November 2031	12,000.0	Dongjiang Town, Longkou City	Dormitory
23	Nanshan Group	Target College	Till 30 November 2031	20,000.0	Dongjiang Town, Longkou City	Teaching
24	Nanshan Group	Target College	Till 30 November 2031	4,140.0	Dongjiang Town, Longkou City	Carpark
25	Nanshan Group	Target College	Till 30 November 2031	8,675.0	Dongjiang Town, Longkou City	Sports Ground
26	Nanshan Group	Target College	Till 30 November 2031	3,283.0	Dongjiang Town, Longkou City	Library

As at the Latest Practicable Date, the environmental impact appraisal procedures (環境影響評價手續) for the Nanshan Campus of the Target College have not been obtained. Pursuant to the confirmation issued by Longkou branch of Ecological Environmental Bureau of Yantai City* (煙台市生態環境局龍口分局) dated 9 December 2021, the Target College has never been punished by the PRC Government due to these non-compliance incidents and will not be subject to any administrative penalty by such bureau for this aforementioned.

Pursuant to the terms of the Acquisition Agreement, Nanshan Group is responsible for providing indemnity for the monetary fines, settlement payments and any associated costs and expenses in relation to the Target College's non-compliance events that happened or arose prior to Completion, and such duty of Nanshan Group to provide indemnity shall subsist after Completion. There is also no limitation as to the kind of non-compliance incident regarding the indemnity obligation of Nanshan Group under the Acquisition Agreement.

Failure to Complete the Fire Control Design Review and Approval (消防設計審查批准) and Fire Control Completion Acceptance Check (消防驗收)

As at the Latest Practicable Date, the Target College did not complete the fire control design review and approval (消防設計審查批准) and fire control completion acceptance check (消防驗收) for 26 leased buildings or property units with a total area of approximately 192,325.8 sq.m., which had been put into use. For details of these non-compliance incidents, the legal consequences and potential maximum penalties, as well as the remedies and rectification measures the Target College has taken to prevent future occurrence and ensure the Target College's ongoing compliance, please refer to the paragraph headed "— Legal Proceedings and Compliance" in this section.

Regulatory Requirements Relating to the Ratio between School Site Area/Building Area and the Number of Full-time Students Enrolled

As advised by the PRC Legal Advisers, the Target College is subject to certain requirements in relation to the prescribed ratios of teaching and administrative building area and school site area to the number of full-time students enrolled. The ratio of the Target College's teaching and administrative building area to the number of full-time students enrolled belongs to one of the basic school operating condition indicators (基本辦學條件指標) (the "**Basic Indicators**") under the relevant PRC rules and regulations that are further categorised into "qualified level" and "restrictive level". The qualified level of the ratio of the Target College's teaching and administrative building area to the number of full-time students enrolled shall not be less than 14 sq.m. and the restrictive level of such ratio shall not be less than 8 sq.m. as the Target College falls under the category of comprehensive school as stipulated by the School Condition Notice. During the Track Record Period, the Target College had complied with such requirement.

The following table sets forth the ratio of teaching and administrative building area to the number of full-time students enrolled for each of the Target College as at the dates indicated:

	School Year			
	2018/ 2019	**2019/ 2020**	**2020/ 2021**	**2021/ 2022**
Ratio of teaching and administrative building area to the number of full-time students enrolled	18.3	16.7	16.4	14.1

Note:

* Despite the fact that the Target College's financial year ends on 31 December, the Target College's school year ends on 31 August. For the purpose of this circular, the Target College uses 1 October as the cut-off date to present student enrolment figures for each school year. The Target College's business operating data presented in this table is based on the internal records of the Target College.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, the Target College owned 15 software copyrights/copyrights in the PRC, and 106 registered patents, 77 of which were patents for inventions, 26 of which were patents for utility models and three of which was patent for design. The Target College has also registered one domain name. The Target College was ranked on the list of the 2019 League Table for Valid Invention Patents of Innovative Enterprises (2019年度創新主體有效發明專利排行榜).

During the Track Record Period and up to the Latest Practicable Date, the Target College has not been subject to any intellectual property infringement claims which had any material adverse impact on the Target College. Please also refer to the section headed "Risk Factors Relating to the Target College — Risks Relating to the Business and the Industry — If the Target College fails to protect its intellectual property rights or prevent the loss or misappropriation of its intellectual property rights, it may lose its competitive edge and its brand, reputation and operations may be materially and adversely affected" in this circular.

INSURANCE

The Target College maintains school liability insurance to safeguard against certain risks and unexpected events. The college currently maintains an employer liability insurance (僱主責任險), group personal accidence insurance (團體意外險), public liability insurance (公共責任險), property all risks insurance (財產一切險) and auto insurance (車險).

The Target College believes that its insurance coverage is generally consistent with the industry practice and provides adequate protection for its assets and operations for the Target College.

SOCIAL HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

Health and Safety Matters

The Target College is dedicated to protecting the health and safety of the students and staff. It provides routine medical services for the students and faculty.

The COVID-19 pandemic did not have any impact on the commencement of the fall semester of the 2020/2021 school year for the Target College. For the spring semester of the 2019/2020 school year, the Target College conducted online courses from February 2020 to mid-June 2020. The students of the Target College gradually returned to the campuses from mid-May 2020 to mid-June 2020, and the Target College's teaching activities were back to normal. The Target College carried out thorough plans, which were reported to the Education Authority, to prepare the return of the students, including, among others, (i) devising a plan for the students to return to the Target College in groups; (ii) requiring the students to report their daily health status; (iii) scrutinising the holiday travel requests made by the students and staff very strictly in accordance with the guidance given by the authorities; (iv) comprehensively checking the availability of the COVID-19 pandemic prevention and control supplies (including masks, protective clothing, hand sanitisers and disinfectants) and preparing sufficient supplies for the students and staff; and (v) conducting training and drills to prepare the staff for the students' return to the college as well as thorough cleaning and disinfection across the entire school.

During the Track Record Period and up to the Latest Practicable Date, the Target College did not experience any serious accident, medical situation or safety issue involving the students in respect of the COVID-19 pandemic, and there were no incidents that jeopardised the health and safety of the staff during the operation of the Target College.

Environmental and Social Matters

The Target College is committed to promoting a compliance culture and will adopt policies and procedures on various compliance matters, including the Stock Exchange's requirements on corporate governance and environmental, social and governance ("**ESG**") matters. The Target College will improve and optimise the ESG strategies to create an efficient and diversified development environment. The Target College plans to adopt more ESG policies in connection with the social responsibilities and corporate governance as appropriate. The Board will be collectively responsible for preparing the ESG report, establishing, adopting and reviewing the ESG targets of the Target College, identifying ESG-related key performance indicators ("**KPIs**") and the relevant measurements, and evaluating, determining and addressing the Target College's ESG-related risks accordance with Appendix 27 to the Listing Rules. The Target College will be involved in the formulation of the mechanisms and the related policies. The Target College will also assess and evaluate the ESG-related risks and review the Target College's existing strategy, targets and internal control measures on an ongoing basis. Where necessary, the Target College will implement improvements to mitigate these risks. In addition, the Target College will engage a third-party consultant to evaluate the risks and the Target College's existing strategies and targets of ESG matters. The Target College plans to establish a working group for ESG under the authorization of the Board to coordinate, manage and report ESG matters after the completion of the Acquisition in accordance with the requirements under the Listing Rules.

With respect to climate change, in case of extreme natural weather, the Target College will actively respond to the relevant policies of local government, make contingency plans, to ensure the safety of students and staff. In the case of acute physical risks such as flood and fire, the Target College also makes the corresponding contingency plans and disaster preparedness plan, in addition to the various property and life insurances contributed by the Target College. Accordingly, the Target College believes that it has the ability to deal with every climate crisis.

The Target College will adopt various strategies and measures to identify, assess, manage and mitigate environmental, social and climate-related risks, including but not limited to:

- Identifying the risks associated with climate changes and formulating corresponding strategies after the completion of the Acquisition;

- Tracking and following industry best practices to ensure that all relevant ESG-related risks are identified on a timely basis;

- Discussing among management from time to time to ensure that all the material ESG areas are recognised and reported;

- Discussing with key stakeholders on key ESG principles and practices to ensure that the significant aspects are covered;

- Organising a specific ESG risk management process to identify and consider ESG risks and opportunities; and

- Setting targets for each major ESG KPI, including with regard to emission, pollution and other impact on the environment aimed at reducing emissions and natural resource consumption.

In addition, during the Track Record Period, the Target College demonstrated its commitment to its corporate social responsibilities. The Target College has put in place a set of social policies to promote health and safety of its employees. In order to provide a safe working environment, the Target College has set out a series of work safety measures in the staff manual for its staff to follow. In addition, it is the Target College's policy to provide its employees with occupational safety training and updates to enhance their awareness of safety issues. The Target College's human resources department is responsible for professional trainings and record keeping of its employees, while the Target College's Safety Management Office is responsible for the implementing of its work safety measures. The Target College has kept a proper system of recording and handling accidents. The Target College believes that it was in compliance with health and work safety requirements in all material respects, and there was no material accidents in the course of its operation which resulted in any claims for personal or property damages or compensation paid to its employees, during the Track Record Period up to the Latest Practicable Date.

The Target College also emphasises employee training and career development, and invest in the education and training programmes for its employees with the purpose of upgrading their knowledge on the latest trends and developments of the industry. Moreover, the Target College promotes social responsibilities and care about its relationship with different stakeholders in the community. The Target College will also engage stakeholders on an ongoing basis, including maintaining close contact with its employees and students, in order to understand their concerns and better meet their expectations. The Target College has entered into employment contracts with employees in accordance with the applicable laws and regulations, including the Labour Law of the PRC (《中華人民共和國勞動法》), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) and the Labour Contract Law Implementation Regulations of the PRC (《中華人民共和國勞動合同法實施條例》). The Target College's corporate policy is to provide employees with equal opportunities, adhere to the principle of equality and justice, and ensure that recruitment is not affected by factors such as nationality, ethnicity, marital status, age, gender and religious beliefs.

With respect to corporate governance, the Target College strictly complies with relevant laws and regulations including, but not limited to, the Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》). During the Track Record Period and up to the Latest Practicable Date, to the best of Target College's knowledge, there were no legal proceedings regarding corrupt practices brought against the Target College or any of its directors and employees.

During the Track Record Period and up to the Latest Practicable Date, the Target College was not aware of any actual or potential environmental, social and climate-related risks that could materially impact the Target College's businesses, strategies and financial performance. To the best knowledge and belief of the Target College's directors, there is no material non-compliance or violation of environmental protection laws and regulations currently exist or persist, including the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), that could materially and adversely affect the Target College's business operations and financial condition, and neither was there any penalty or fine in connection with the breach of the relevant laws or regulations imposed on the Target College. The Target College intends to devote required resources to comply with applicable environmental protection laws and regulations, the cost of which will be borne by it.

During the Track Record Period, the Target College did not incur any expenses in complying with environmental and social requirements. During the Track Record Period, the Target College did not record any non-compliance with applicable environmental and social requirements that resulted in the prosecution, conviction or penalty being brought or imposed against us.

COMPETITION

The private higher education services market in China is rapidly evolving, highly fragmented and competitive. The Target College faces competition primarily from public schools and other private education institutions in China. The Target College also competes directly with public and other private education institutions in Shandong Province, where the Target College is located. The Target College believes that its principal competitive advantages include, among others:

- In-depth integration of education and industry, and effective school-enterprise collaboration that enhance the career prospect of the Target College's graduates; and

- Advanced application-oriented education and talent training model and a cradle for talents with technical skills.

The Target College expects competition in the private education market to persist and intensify. It believes that it is able to compete effectively due to its strong reputation, diverse curriculums, high quality of its teaching staff, established practical training-focused programmes. However, some of the Target College's existing and potential competitors, especially public universities, have governmental support in the form of government subsidies and other payments. The Target College's competitors may devote greater resources, financial or otherwise, than the Target College can to student recruitment, campus development and brand promotion, and respond more quickly than the Target College can to changes in student demands and market needs. Please refer to the section headed "Risk Factors Relating to the Target College — Risks Relating to the Business and the Industry — The Target College faces intense competition in the PRC education industry and its business, financial condition and results of operations may be adversely affected if it is unable to compete effectively" in this circular for further details.

LEGAL PROCEEDINGS AND COMPLIANCE

From time to time, the Target College may be subject to legal proceedings, investigations and claims incidental to the conduct of its business. During the Track Record Period and up to the Latest Practicable Date, the Target College had not been, and were not, a party to any material legal, arbitral or administrative proceedings, and the Target College were not aware of any pending or threatened legal, arbitral or administrative proceedings against it or any of its directors, which, in the opinion of the Board of the Target College, could have a material adverse effect on its business operations or financial condition. The Board of the Target College also confirmed that the Target College is not engaged in any material litigation, arbitration or administrative proceeding.

During the Track Record Period and up to the Latest Practicable Date, save as disclosed below, the Target College did not commit any material non-compliance of the laws or regulations and did not experience any systemic non-compliance incidents, which taken as a whole, in the opinion of the Board of the Target College, are likely to have a material adverse effect on its business, financial condition or results of operations. During the same periods, the Target College also did not experience any non-compliance of the laws or regulations, which taken as a whole, in the opinion of the Board of the Target College, reflects negatively on the ability or tendency of the Target College, its directors or its senior management, to operate its business in a compliant manner. According to the PRC Legal Advisers, other than disclosed in this circular, the Target College has complied with all the relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

Under the current regulations in Shandong Province, there are no provisions explicitly stipulating that an existing private school is not entitled to register as a For-profit Private School if it experienced any historical non-compliance of the laws or regulations. Below sets forth the details of historical non-compliance incidents of the Target College during the Track Record Period and up to the Latest Practicable Date.

Historical Non-compliance Incidents

The table below sets forth a summary of incidents of historical non-compliance with the applicable laws and regulations during the Track Record Period.

Particulars of the non-compliance	Reasons for the non-compliance	Legal Consequences and Potential Maximum penalties	Remedies and Rectification Measures Taken to Prevent Future Breach and Ensure Ongoing Compliance
(i) Land without title certificates As at the Latest Practicable Date, the Target College occupied one parcel of land located at the Donghai Campus in Yantai City, Shandong Province, the PRC with a total gross site area of approximately 444,058.0 sq.m., representing 23.4% of the total land occupied by the Target College for which the Target College had not obtained the land use right certificate and such parcel of land had been put into use for construction of buildings for teaching activities, student dormitories and gymnasium.	The non-compliance incidents were due to the inadvertent oversight as well as the lack of sufficient knowledge on understanding the relevant PRC laws and regulations.	As advised by the PRC Legal Advisers, for the lands the Target College has put into use without title certificates, pursuant to Land Administration Law of the PRC (《中華人民共和國土地管理法》) and Regulation on the Implementation of the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》), the Target College may be ordered to return the land occupied, remove the buildings and other structures on the land occupied with a prescribed time limit, and the buildings and the other structures on the lands may be confiscated and a fine between RMB100 and RMB1,000 per square metre of such occupied land may be imposed concurrently. As at the Latest Practicable Date, the Target College did not receive any notice or penalty in relation to such non-compliance. Pursuant to the interview with Supervisal Corps of Law Enforcement of Natural Resources of Longkou City* (龍口市自然資源執法監察大隊), being the competent authority to confirm the following matters as advised by the PRC Legal Advisers, dated 17 December 2021, (i) the Target College will not be ordered to return such land occupied, remove the buildings and other structures on the land occupied by the Target College by such PRC government authority; (ii) the Target College will not be subject to any administrative penalty by such authority due to possession and use of such land; and (iii) no record of penalties of the Target College due to this non-compliance incident as at the date of the aforementioned confirmation. Although the potential maximum penalty for this non-compliance incident is approximately RMB444.1 million, based on the foregoing, the PRC Legal Advisers are of the view that the risk that the Target College may be subject to abovementioned penalty by such PRC government authority for this non-compliance incident is relatively low.	The Board of the Target College believe that in the event the Target College is required to vacate the relevant parcel of land and relocate, a suitable replacement can be timely identified. Furthermore, the Target College has adopted the following internal control measures to mitigate any future recurrence of non-compliance: (i) standardising the process of land acquisitions, and ongoing compliance during the land acquisition and the completion of all necessary procedures before putting the lands in use; (ii) enhancing the Target College's internal supervision of land acquisitions by appointing the relevant departments of the Target College to supervise and monitor the administrative staff of the Target College with respect to such matters; and (iii) motivating employees by establishing an reward and punishment system. After adopting these internal control measures, the Board of the Target College is of the view that the Target College has adequate internal control systems in place for its property-related compliance in the future, and therefore, is able to comply with the internal control requirements under the Listing Rules. Based on the abovementioned, the Board of the Target College is of the view that the non-compliance incidents of the Target College in respect of the land without title certificate will not have a material adverse impact on the Target College's operation and financial condition, and the Company is of the view that these non-compliance incidents do not affect the integrity of the Directors of the Target College.

Particulars of the non-compliance	Reasons for the non-compliance	Legal Consequences and Potential Maximum penalties	Remedies and Rectification Measures Taken to Prevent Future Breach and Ensure Ongoing Compliance
(ii) Failure to obtain the requisite construction planning permit, construction permit or construction project completion acceptance check (竣工驗收) As at the Latest Practicable Date, the Target College failed to obtain the requisite construction planning permit for 20 occupied buildings located at the aforementioned parcel of land without obtaining the land use right certificate in the Donghai Campus with a total GFA of approximately 61,555.6 sq.m. (representing approximately 9.7% of GFA which has yet to comply with the relevant laws or regulations), the Target College failed to obtain the requisite construction permit or construction project completion acceptance check (竣工驗收) for eight occupied buildings located at the aforementioned parcel of land without obtaining the land use right certificate in the Donghai Campus with a total GFA of approximately 59,942.8 sq.m. (representing approximately 9.5% of GFA which has yet to comply with the relevant laws or regulations). All such buildings had been put into use as at the Latest Practicable Date.	The requisite permits, inspections and acceptance check were inadvertently omitted when the Target College commenced the construction of such building and when they were put into use. The Target College therefore has not obtained the building ownership certificates for such buildings as at the Latest Practicable Date.	As advised by the PRC Legal Advisers, (i) for construction work that is carried out without a construction planning permit, the competent licence issuing government authority shall order the construction to be ceased; and if such impact can be rectified, the Target College may be subject to a fine ranging from 5% to 10% of the construction cost and ordered to rectify the impact on the planning caused by such construction; or if such impact cannot be rectified, the Target College may be ordered to demolish the building within a prescribed period of time, and if the building cannot be demolished, the Target College may be subject to a fine of not more than 10% of the construction cost and the confiscation of the building and/or any income illegally earned from such construction; (ii) for construction work that is carried out without a construction permit, the competent licence issuing government authority shall order the construction to be ceased; order rectification within a prescribed time limit; and impose a fine of not less than 1% and not more than 2% of the contract price of the construction; and (iii) for construction projects which did not pass the construction project completion acceptance check, the Target College may be ordered to rectify and may be subject to a fine of not less than 2% and not more than 4% of the contract price of the construction per building. As at the Latest Practicable Date, the Target College did not receive any notice or penalty in relation to such non-compliances. Pursuant to the confirmations issued by the HURC dated 21 October 2021 and 20 April 2022 and the NRPB dated 26 October 2021 and 21 April 2022, (i) the Target College will not be ordered to remove the relevant buildings; (ii) the Target College will not be penalised for such non-compliance incidents; and (iii) the Target College is enable to continue to use the relevant buildings considering that the housing quality and safety of such buildings comply with the applicable PRC laws and regulations. Although the potential maximum penalty for such non-compliance incidents is appropriately RMB14.0 million, based on the foregoing, the PRC Legal Advisers are of the view that the abovementioned PRC Government had appropriate authority to give the relevant confirmations, and the risk that the Target College may be subject to abovementioned penalty by such bureaus for the abovementioned non-compliance is relatively low.	The Target College has adopted the following internal control measures to mitigate any future recurrence of non-compliance: (i) standardising the process of construction projects, requiring approval of each construction project, ongoing compliance during construction and the completion of all necessary inspection and check procedures before putting the properties in use; (ii) enhancing the Target College's internal supervision of construction projects by appointing the relevant departments of the Target College to supervise and monitor the administrative staff of the Target College with respect to such matters; and (iii) motivating employees by establishing an reward and punishment system. After adopting these internal control measures, the Board of the Target College is of the view that the Target College has adequate internal control systems in place for its property-related compliance in the future, and therefore, is able to comply with the internal control requirements under the Listing Rules. Based on the abovementioned, the Board of the Target College is of the view that the non-compliance incidents of the Target College in respect of the failure to obtain the requisite construction planning permit, construction permit or construction project completion acceptance check will not have a material adverse impact on the Target College's operation and financial condition, and the Company is of the view that these non-compliance incidents do not affect the integrity of the Directors of the Target College.

Particulars of the non-compliance	Reasons for the non-compliance	Legal Consequences and Potential Maximum penalties	Remedies and Rectification Measures Taken to Prevent Future Breach and Ensure Ongoing Compliance
(iii) Failure to complete the fire control design review and approval and fire control completion acceptance check As at the Latest Practicable Date, the Target College failed to complete the fire control design review and approval and fire control completion acceptance check for 74 owned or occupied properties with a total GFA of approximately 624,518.2 sq.m. (representing approximately 98.9% of the GFA owned or occupied by the Target College) and 26 leased buildings or property units with a total GFA of approximately 192,325.8 sq.m., both of which had been put into use.	The non-compliance incidents were due to the inadvertent oversight as well as the lack of sufficient knowledge on understanding the relevant PRC laws and regulations.	As advised by the PRC Legal Advisers, (i) for construction projects that were carried out without completing the fire control design review and approval, the Target College is subject to the risk of being prohibited from using these buildings or closing the Target College's business relevant to the affected buildings, and being fined between RMB30,000 and RMB300,000 per building; and (ii) for construction projects the Target College has put into use without completing the fire control completion acceptance check before putting into use, the Target College is subject to the risk of being prohibited from using these buildings or closing the Target College's business relevant to the affected buildings, and being fined between RMB30,000 and RMB300,000 per building. As at the Latest Practicable Date, the Target College had engaged an independent third party professional institution to conduct a fire control assessment and such professional third party concluded that such properties comply with relevant fire control requirements required by PRC laws and regulations and are suitable, from fire control perspective, for being used to carry out their corresponding functions of design, except for one occupied building with a total gross floor area of approximately 35,796.3 sq.m. designed as cultural facilities, one occupied building with a total gross floor area of approximately 9,325.5 sq.m. for administrative purposes and eight leased buildings with a total gross floor area of approximately 64,677.0 sq.m. for teaching activities, student dormitories and gymnasium (collectively, the "**properties without third-party fire control assessment**"). As at the Latest Practicable Date, the Target College did not receive any notice or penalty in relation to such non-compliances. The Board of the Target College confirmed as at the Latest Practicable Date, no major fire safety issue has occurred on these properties since they came into operations. Pursuant to the confirmations issued by the HURC dated 21 October 2021 and 20 April 2022, (i) the Target College will not be ordered to remove the relevant buildings; (ii) the Target College will not be penalised for such non-compliance incidents; and (iii) the Target College is enable to continue to use the relevant buildings considering that the housing quality and safety of such buildings comply with the applicable PRC laws and regulations. Although the potential maximum penalty for this non-compliance incident is RMB60.0 million, based on the foregoing, the PRC Legal Advisers are of the view that the abovementioned PRC Government had appropriate authority to give the relevant confirmation, and the risk that the Target College may be subject to abovementioned penalty by such bureau for the abovementioned non-compliance is relatively low, except for the properties without third-party fire control assessment.	The Target College has adopted the following internal control measures to mitigate any future recurrence of non-compliance: (i) standardising the process of construction projects, requiring approval of each construction project, ongoing compliance during construction and the completion of all necessary inspection and check procedures before putting the properties in use; (ii) enhancing the Target College's internal supervision of construction projects by appointing the relevant departments of the Target College to supervise and monitor the administrative staff of the Target College with respect to such matters; and (iii) motivating employees by establishing an reward and punishment system. After adopting these internal control measures, the Board of the Target College is of the view that the Target College has adequate internal control systems in place for its property-related compliance in the future, and therefore, is able to comply with the internal control requirements under the Listing Rules. Based on the abovementioned, the Board of the Target College confirms that no accidents had occurred on such premises and is of the view that the non-compliance incidents of the Target College in respect of the failure to complete the fire control design review and approval and fire control completion acceptance check will not have a material adverse impact on the Target College's operation and financial condition, and the Company is of the view that these non-compliance incidents do not affect the integrity of the Directors of the Target College.

Particulars of the non-compliance	Reasons for the non-compliance	Legal Consequences and Potential Maximum penalties	Remedies and Rectification Measures Taken to Prevent Future Breach and Ensure Ongoing Compliance
(iv) Social insurance plan and housing provident fund During the Track Record Period, the Target College (i) failed to make full contribution of social insurance and housing provident fund for all of its employees based on their actual salaries; and (ii) failed to make contribution of social insurance and housing provident fund for all its employees.	The non-compliance incidents were due to the inadvertent oversight as well as the lack of sufficient knowledge on understanding the relevant PRC laws and regulations and the inconsistent implementation or interpretation of the relevant regulations by the responsible local government authorities.	As advised by the PRC Legal Advisers and according to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), that a PRC incorporated company is required to provide its employees with welfare schemes covering social security insurance and the PRC Government has the power to order the employing unit, which failed to make contribution of social insurance on time in accordance with the relevant PRC laws and regulations, to make the contribution within a prescribed time limit and that a daily overdue penalty of 0.05% of the outstanding social security insurance contribution may be imposed by the PRC Government from the due date. If the Target College fails to make full payment of outstanding social security insurance contributions and the overdue penalty within the prescribed time limit, a fine in the amount of one to three times of the total of the outstanding contributions and the said overdue penalty may be imposed. As advised by the PRC Legal Advisers and according to the Regulations on Administration of Housing Provident Fund of PRC (《中華人民共和國住房公積金管理條例》), the Target College is required to make housing provident fund for its employees and the PRC Government has the power to order the employing unit, which failed to make housing provident fund contribution in accordance with the relevant PRC laws and regulations, to make contribution within a prescribed time limit and if such unit fails to act accordingly, an application of compulsory enforcement can be made to the People's Court of the PRC. Based on the interview with Social Insurance Service Centre of Longkou City* (龍口市社會保險服務中心) on 29 October 2021 and 16 April 2022, (i) it will not inspect and ask enterprises to make the outstanding contributions of the pension, unemployment and work-related injury insurance, if any or impose administrative penalties on the enterprises, in accordance with the applicable PRC laws and regulations unless any complaints from the employees of such enterprises in practice; (ii) as at the date of the interview, it has yet to receive any complaints on the aforementioned issues from the employees of the Target College; and (iii) as at the date of the interview, no record of violation of applicable laws and regulations of Target College in relation to pension, unemployment and work-related injury insurance. Pursuant to the interview, which took place on 8 December 2021, with the Medical Security Bureau of Longkou City* (龍口市醫療保障局), (i) in the absence of any complaints about the Target College, it will not take the initiative to request the Target College to make the outstanding contributions or impose administrative penalties on the Target College; (ii) if there are no material changes in medical and maternity insurance policies, the Target College can continue to pay medical and maternity insurance with the status quo; and (iii) there was no record of non-compliance incidents of the Target College in relation to the relevant PRC laws and regulations with respect to medical and maternity insurance since its establishment.	The Target College has implemented a policy on managing social security insurance and housing provident fund for its employees. The Target College has also designated experienced human resources staff to process matters relating to social security insurance and housing provident fund contribution matters including all filing of documents, payment of contributions and updating the relevant government policies and regulations, including the applicable based for calculation of the social security insurance and housing provident fund contributions, in the Target College's internal guidelines. The Target College has started arranging the payment of social security insurance and housing provident fund contributions for its existing and newly hired employees in accordance with the applicable PRC laws and regulations since January 2021. Based on the abovementioned, the Board of the Target College is of the view that the non-compliance incidents of the Target College in respect of the social security insurance and housing provident fund contributions will not have a material adverse impact on the Target College's operation and financial condition, and the Company is of the view that these non-compliance incidents do not affect the integrity of the Directors of the Target College.

Particulars of the non-compliance	Reasons for the non-compliance	Legal Consequences and Potential Maximum penalties	Remedies and Rectification Measures Taken to Prevent Future Breach and Ensure Ongoing Compliance
		According to the compliance certificates dated 18 October 2021 and issued by and the interview conducted with the Longkou branch of the Yantai City Housing Provident Fund Management Centre* (煙台市住房公積金管理中心龍口分中心) on 29 October 2021, the Target College has never faced any administrative penalty or punishment imposed by the PRC Government during the Track Record Period. Unless the Yantai City Housing Provident Fund Management Centre receives complaints regarding the Target College relating to failing to make full contribution of housing provident funds for its employees, it will not, on its own initiative, require the Target College to repay the outstanding contribution or impose any administrative penalties. The Target College can continue to make housing provident funds in accordance with the status quo unless its employees file complaints. As at the Latest Practicable Date, the Target College had not received any requirement from the PRC Government requiring us to make the outstanding contribution of social insurance and housing provident within a given period. Although as at 31 December 2021, the potential maximum penalty for this non-compliance incident is approximately RMB7.5 million, based on the abovementioned, the PRC Legal Advisers are of the view that the risk that the Target College may be subject to any abovementioned penalty by such government authorities for these non-compliance incidents is relatively low on condition that no complaints made by the relevant employees.	
(v) Teacher-to-student ratio staying between the qualified level and the restrictive level For the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years, the teacher-to-student ratio of the Target College was 1:18.8, 1:20.5, 1:20.8 and 1:21.9, respectively. As advised by the PRC Legal Advisers, the teacher-to-student ratio is one of the Basic Indicators. The Basic Indicators are further categorised into qualified level (which are suggested aspirational standards) and restrictive level (which are suggested minimum requirements). The teacher-to-student ratio of the Target College shall be maintained at the qualified level of not less than 1: 18 and at the restrictive level of not less than 1: 22 in accordance with applicable rules and regulations in the PRC. However, for the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years, the Target College did not comply with the prescribed ratio of the qualified level.	Failure to meet the relevant regulatory teacher-to-student ratio occurred mainly due to the lack of sufficient knowledge on understanding the relevant PRC laws and regulations.	As advised by the PRC Legal Advisers, as at the Latest Practicable Date, the School Condition Notice did not state any legal consequence or penalty for the failure of the Target College to meet the qualified level of the Basic Indicators while meeting the restrictive level with respect to the teacher-to-student ratio. In addition, the Targe College had passed all annual inspections conducted by the relevant education authority during the Track Record Period. The Board of the Target College confirmed that the Target College had neither received any yellow or red card from, nor been subject to any form of administrative penalty by, competent authorities in relation to its compliance with the teacher-to-student ratio during the Track Record Period and up to the Latest Practicable Date.	The Target College endeavours to continuously improve the quality of its education and the teacher-to-student ratio is one of the many metrics under consideration. The Target College will monitor and adjust the teacher-to-student ratio as necessary and where practicable based on the needs of the Target College's increasing student enrolment and the Target College's education plans and activities without compromising the quality of its education or profitability. The Target College has convened meetings to formulate plans to strengthen the recruitment of teachers, and devote additional resources to stepping up its teacher recruitment and retention efforts going forward to further improve its teacher-to-student ratio and its overall teaching quality and strive to reach the qualified level in light of its growth in student enrolment and the complexity of its course offerings. In 2022, the Target College has engaged two extra online recruitment agents to support its recruitment efforts. It is also expected that more than 100 new teaching staff will join the Target College in August 2022. Based on the abovementioned, the Company is of the view that the non-compliance incident does not affect the integrity of the Directors of the Target College.

Particulars of the non-compliance	Reasons for the non-compliance	Legal Consequences and Potential Maximum penalties	Remedies and Rectification Measures Taken to Prevent Future Breach and Ensure Ongoing Compliance
(vi) Some full-time teachers have yet to obtain the teacher qualification certificates According to the Regulations on Teacher Qualification Certificates (《教師資格條例》), personnel specialised in teaching activities in schools and other educational institutions must obtain teacher qualification certificates from education authorities. As at 31 May 2022, 342 full-time teachers (represent approximately 30.2% of total full-time teachers) of the Target College failed to comply with Regulations on Teacher Qualification Certificates and did not obtain the teacher qualification certificates.	Failure to meet the relevant regulatory qualification requirements for the full-time teachers occurred primarily due to the lack of sufficient knowledge on understanding the relevant PRC laws and regulations.	As advised by the PRC Legal Advisers and according to the Law for Promoting Private Education and the 2021 Implementation Rules, if a private school employs its teachers in violation of State regulations, the relevant governmental department shall order it to rectify within a time limit and give it a warning; if there are unlawful gains derived therefrom, they shall be confiscated after returning the fees collected (if applicable). Pursuant to the interview on 17 February 2022 with the Education Authority, being the competent authority to confirm the matters about teacher qualification certificates as advised by the PRC Legal Advisers, (i) according to the policies of Shandong Province, newly recruited teachers should attend the training organised by the Shandong Province Higher Education Teacher Training Centre before they obtain the teacher qualification certificates within one year after they start to work; and (ii) the Target College is allowed to arrange such teachers to engage in relevant teaching activities and will not be subject to penalties due to the lack of teacher qualification certificates for such teachers. Based on the foregoing, the PRC Legal Advisers understand that the Education Authority confirmed that the Target College will not be subject to penalties due to the lack of teacher qualification certificates for such teachers. Based on such interview, the PRC Legal Advisers are of the view that the risk that the Target College may be subject to the abovementioned penalty by the Education Authority for this non-compliance incident is relatively low. As at the Latest Practicable Date, as confirmed by the Board of the Target College, the Target College had not received any notice of warning or been subject to any penalties or disciplinary action from government authorities due to the lack of teacher qualification certificates for such teachers.	The Target College encourages teachers who have not yet obtained a teacher qualification certificate at the time they are hired to obtain such certificate within the calendar year they become eligible to take the teacher qualification examination. More than 200 teaching staff of the Target College will participate in the upcoming teacher qualification exams to be held in June and July 2022. Based on the abovementioned, the Company is of the view that the non-compliance incident does not affect the integrity of the Directors of the Target College.

Particulars of the non-compliance	Reasons for the non-compliance	Legal Consequences and Potential Maximum penalties	Remedies and Rectification Measures Taken to Prevent Future Breach and Ensure Ongoing Compliance
(vii) The ratio of number of books to the number of full-time students staying between the qualified level and the restrictive level According to the School Condition Notice promulgated by the MOE in 2004, except for sports and art schools, the qualified ratio between the number of books of a higher education and its number of full-time students enrolled shall be 50 to 100 per full-time student. The ratio of a higher education institution's number of books to the number of full-time students enrolled, according to the Basic Indicators, can be further categorised into the "qualified level" and the "restrictive level". The Target College, as stipulated by the School Condition Notice, falls under the category of comprehensive school. The applicable qualified level of the ratio of the Target College's number of books to the number of full-time students enrolled shall not be less than 100 per full-time student and the restrictive level of such ratio shall not be less than 50 per full-time student. In the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years, the ratio between the number of books of the Target College and its number of full-time students enrolled was approximately 71.2 per full-time student, 70.5 per full-time student, 72.1 per full-time student and 61.8 per full-time student, respectively. Such ratio for the 2018/2019, 2019/2020, 2020/2021 and 2021/2022 school years did not meet the qualified level of 100 per full-time student while meeting the restrictive level of 50 per full-time student under the School Condition Notice.	The Target College failed to meet the qualified level primarily because of lack of sufficient knowledge on understanding the relevant PRC laws and regulations.	As advised by the PRC Legal Advisers, as at the Latest Practicable Date, the School Condition Notice does not state any legal consequence or penalty for failing to meet the qualified level of the Basic Indicators while meeting the restrictive level with respect to the ratio of the number of books per full-time student.	The Target College endeavours to improve the number of books per full-time student ratio of the Target College through acquiring even more books. The Target College will also monitor and adjust the ratio as necessary and, where practicable, based on the needs of the Target College. The Board of the Target College is of the view that it has adequate measures in place to improve the ratios of the number of books per full-time student going forward as the Target College intends to use the Target College's internally generated funds to acquire even more books, which will increase the number of books accordingly. Based on the abovementioned, the Company is of the view that the non-compliance incident does not affect the integrity of the Directors of the Target College.

Views of the Board of the Target College

In addition to the remedies and rectification measures described above, the School Office will be responsible for the supervision of the Target College's compliance with applicable laws and regulations and the implementation of the internal control measures. The School Office shall be responsible for, among others, (i) monitoring the Target College's daily business operations to ensure its ongoing compliance with the applicable laws and regulations; (ii) overseeing the specific measures implemented to rectify the Target College's past non-compliances; and (iii) reporting any newly discovered non-compliances issue to the Board of the Target College and assisting in rectifying such non-compliance issue. Based on the foregoing, the Target College's directors are of the view that the abovementioned internal control measures the Target College implemented are effective. After discussing with the Target College's senior management and considering the remedies and rectification measures taken by the Target College to prevent future occurrence of non-compliance incidents and ensure the Target College's on-going compliance, nothing has come to the attention of the Board of the Target College that such measures are materially inadequate or ineffective for the purpose of complying with applicable laws and regulations in all material respects.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Control

An independent firm (the "**Internal Control Consultant**") has been engaged to conduct an evaluation of the Target College's internal control system in connection with the financial close reporting processes, revenue and accounts receivable, cost and payment, bank and cash management, fixed assets and intangible asset management, human resources and payroll management, taxation, teaching management and information technology general controls. As part of the engagement, the Target College has consulted with the Internal Control Consultant to identify the factors relevant to enhancing its internal control system and the steps to be taken, and the Internal Control Consultant made a number of recommendations. The Internal Control Consultant conducted its work in August 2021 and provided a number of findings and recommendations in its report. The Target College has subsequently taken remedial actions in response to such findings and recommendations. The Internal Control Consultant performed follow-up procedures on the Target College's system of internal control with regard to those actions taken by the Target College in October 2021 and reported further commentaries in December 2021. Having considered the report prepared by the Internal Control Consultant, the Target College's directors confirmed that all of the major recommendations provided by the Internal Control Consultant have been followed and corrective actions were taken accordingly to address the internal control deficiencies and weakness.

The Target College has established the Principal's Office and it has designated the relevant personnel who will be responsible for monitoring the Target College's ongoing compliance with the relevant PRC laws and regulations that govern its business operations and overseeing the implementation of any necessary measures. In addition, the Target College plans to provide its directors, senior management and employees involved with continuing training programmes 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 potential non-compliance.

With respect to the Target College's ongoing compliance generally, the Target College has implemented the following internal control measures to ensure its compliance with applicable laws and regulations and to enhance its internal control:

- Implementing internal control system manuals on corporate governance, operations, management, legal matters, finance an auditing that set out the internal approval and review procedures pursuant to which the Target College's employees are required to comply with; and

- Engaging external professional advisers, primarily legal advisers as to Hong Kong laws and PRC laws, and tax advisors, to provide professional advice and guidance to the Target College to ensure compliance with applicable laws and regulations. The Target College will also arrange internal training for the directors of the Target College and employees from time to time to ensure they are kept up-to-date with any legal and regulatory developments.

Risk Management

The Target College is exposed to various risks in the operation of its business and the Target College believes that risk management is important to its success. Key operational risks faced by the Target College include, the ability to attract and retain senior management and other dedicated and qualified teachers and staff, the Target College's ability to increase its student enrolment, the Target College's ability to swiftly and timely respond to the changes of the market demand and the laws and regulations in the PRC in relation to the private higher education as well as their amendments which may affect its business operations and prospects. Please refer to the section headed "Risk Factors Relating to the Target College — Risks Relating to the Business and the Industry" in this circular for disclosures on various risks it faces. In addition, the Target College faces numerous market risks that arise in the normal course of the Target College's business.

To properly manage these risks, the Target College has established the following risk management structures and measures:

- The Board of the Target College is generally responsible for making strategic decisions about the budget, investments, acquisitions and future development of the college. It is also responsible for reviewing and approving any significant business decisions that involve material risks, such as the expansion of the college into new areas, the increase of tuition fees and boarding fees, the construction of the college and the decision to establish significant business partnerships with third parties to develop new educational programmes;

- The Principal is the person who makes decisions for the Target College. Under the instruction of the Board of the Target College, the Principal, assisted by and together with the Vice Principals and the head of the different departments, are responsible for the continuous risk management of the Target College. The Principal shall make decisions on remedial measures for serious incidents or behaviour that violates the Target College's internal control policies reported to it. The materials in relation to such incidents shall be filed for record, which include incident reports, records of detection and inspection, inspection report, inspection advice, inspection decisions and their materials. The Target College will also learn from the experience of the incidents to find its deficiencies and refer to such materials for the guidance of its future work; and

- The Target College maintains insurance coverage, which the Target College believes that is in line with customary practice in the education industry of the PRC, including the public liability insurance.

RECOGNITION AND AWARDS

The Target College has received numerous awards and recognitions since its establishment in recognition of the quality of the education the Target College provides and the outstanding achievements of the students of the Target College. The following table sets forth some of the awards and recognitions the college has received:

Year	Award/Accreditation	Awarding organisation
2009	Most Influential Privately Higher Education Institute Brand at the 60th Anniversary of the Establishment of the PRC (建國60周年最具影響力民辦高校品牌)	Sohu Education (搜狐教育)
2010	Advanced Institute in the Cooperation of School and Enterprise in China 2010 (2010年度中國校企合作先進院校)	China Top 100 Enterprise Education Organising Committee (中國企業教育百強組委會)
2010	Top 10 Private Higher Education Institute with Highest Public Satisfaction (山東民辦高校公眾滿意度十佳院校)	The Comprehensive Provincial Condition Research Centre of the Shandong Academy of Social Sciences (山東省社科院省情綜合研究中心)
		Shandong Daming Economic Development Research Centre (山東大明經濟發展研究中心)
2011	Top 10 Private Higher Education Institute Brand in China (中國十大品牌民辦高校)	Sohu Education (搜狐教育)
2015	Top 10 Best Private Higher Education Institute in the Shandong Province (山東十大民營院校)	Shandong Channel of Youth.CN (中國青年網山東頻道)
2015	"Taiqi New Energy Cup" Shandong Province Students Electromechanical Product Innovation Design Competition — Outstanding Unit (「泰汽新能源盃」山東省大學生機電產品創新設計競賽優秀組織單位)	The Education Authority

Year	Award/Accreditation	Awarding organisation
2019	Yantai "Mayor Cup" Industrial Design Competition Outstanding Organisation Award (煙台「市長盃」工業設計大賽優秀組織獎)	The People's Government of Yantai City (煙台市人民政府)
2019	The Higher Education Institute with the Best Social Reputation in Shandong of the Year (年度山東最佳社會聲譽高校)	Shandong Internet Media Group (山東省互聯網傳媒集團)
2020	Higher Education Institute with the Most Influential Admission Promotion 2020 (2020年度招生宣傳最具影響力高校)	Qilu Evening News (齊魯晚報)
2020	Higher Education Institute with Graduates Most Recognised by Employers 2020 (2020年度畢業生最受用人單位認可高校)	Qilu Evening News (齊魯晚報)
2020	Higher Education Institute with the Most Influential Convergence Media 2020 (2020年度融媒傳播最具影響力高校)	Qilu Evening News (齊魯晚報)
2020	Higher Education with the Most Trustworthy Admission Promotion 2020 (2020年度招生宣傳最具公信力高校)	Qilu Evening News (齊魯晚報)
2020	The 2020 Convergence Media Influence Award (2020年度融媒影響力獎)	Shandong Radio and Television (山東廣播電視台)
2021	Smart Higher Education School Advancement Award (智慧高校飛躍獎)	SCIO (智慧高校CIO論壇組委會)
2021	The 2021 Convergence Media Influence Award (2021年度融媒影響力獎)	Shandong Radio and Television (山東廣播電視台)

CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Union Capital and Ms. Sui were the Group's Controlling Shareholders with details set out below:

(i) Union Capital was interested in approximately 51.23% of the entire issued share capital of the Company. Union Capital was incorporated in Singapore with limited liability and was principally engaged in investment holding and aircraft chartering in Singapore; and

(ii) Ms. Sui was interested in entire issued share capital of Union Capital.

As disclosed in the section headed "Letter from the Board" in this circular, the consideration for the Acquisition shall be satisfied by cash, therefore there will be no change in the shareholding of the Company and Union Capital and Ms. Sui will remain as the Group's Controlling Shareholders after the Completion.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

On the basis of the following reasons, the Directors are of the view that the Target College is capable of carrying on its business independently or, and does not place undue reliance on, the Controlling Shareholders and their respective close associates:

Management independence

As at the Latest Practicable Date, there was no overlapping of directors or senior management team of the Target College and the Controlling Shareholders or their respective close associates. The Directors are therefore satisfied that the directors and senior management team of the Target College are able to perform the managerial role in the Target College independently.

Operational independence

As at the Latest Practicable Date, the Target College:

(i) did not share any business operations, operation team, facilities and equipment with the Controlling Shareholders and their close associates;

(ii) held all material licences, permits, approvals and certificates necessary to conduct its business operations from the relevant government authorities in the PRC. For further details, see "Business of the Target College — Licences" of this circular;

(iii) had its own organisational structure and each of its departments was assigned with specific responsibilities and functions;

(iv) implemented a set of internal control measures to ensure its compliance with applicable laws and regulations and established its own risk management structures and measures to properly manage the risks in the operation of its business. For further details, see "Business of the Target College — Internal Control and Risk Management" of this circular; and

(v) had its own sources of customers (i.e. students) which were independent from the Controlling Shareholders and their respective close associates.

Accordingly, the Directors consider that the Target College is able to operate independently of the Controlling Shareholders and their respective close associates.

Financial independence

During the Track Record Period, the Target College principally financed its operations through a combination of cash generated from its operations and external borrowings, including notes and other borrowings. The Company believes that following Completion, the business of the Target College will be able to be funded independently by its operational cash flow without credit support from the Controlling Shareholders and their respective associates.

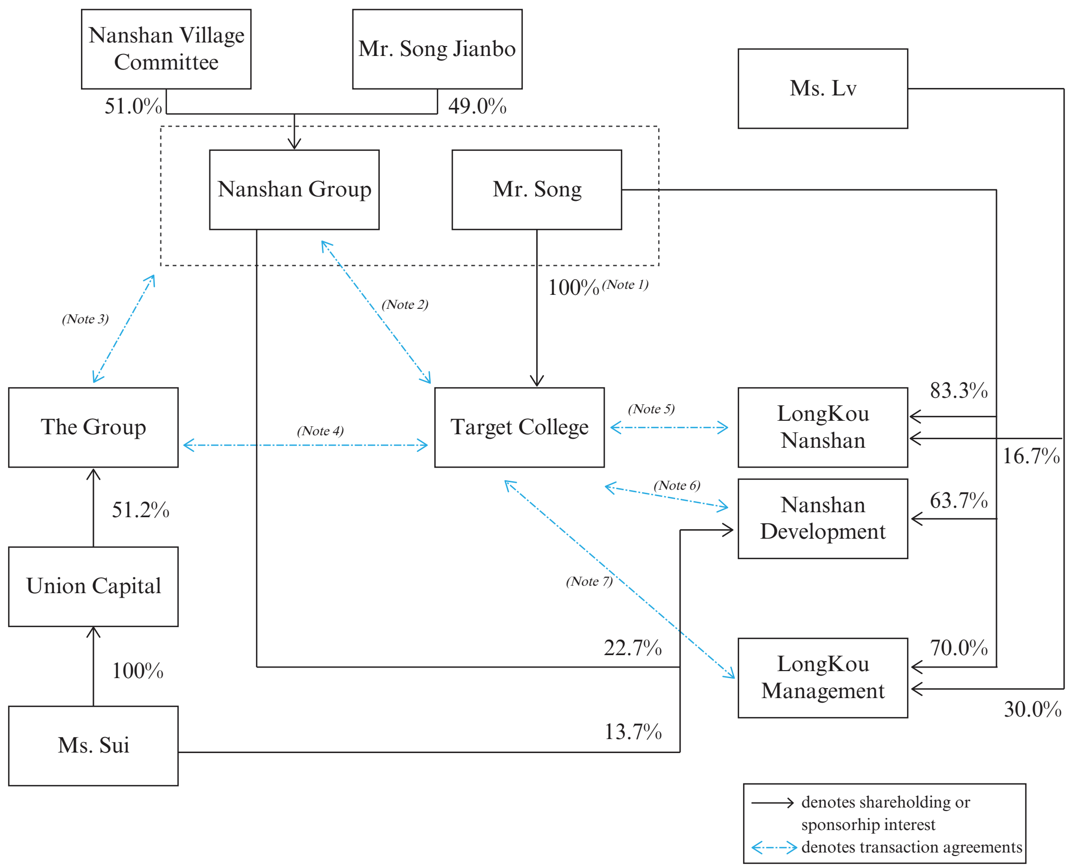
As at the Latest Practicable Date, the Target College had its own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment and made financial decisions according to its own business needs. As at the Latest Practicable Date, there was no security or guarantee provided by the Controlling Shareholders regarding any facilities or loans of the Target College.

Having considered the above factors, the Directors are of the view that the Target College will be financially independent of the Controlling Shareholders and their respective close associates after the Completion.

NANSHAN GROUP

As at the Latest Practicable Date, Nanshan Group was a company established in the PRC in 1992, owned as to 51% by the Nanshan Village Committee and 49% by Mr. Song Jianbo, respectively. Mr. Song Jianbo, the spouse of Ms. Sui, is also the legal representative, chairman and general manager of Nanshan Group.

The following organisation chart, includes the shareholding structure of Nanshan Group and other counterparties of the Acquisition Agreement and the Framework Agreements as at the Latest Practicable Date:



Notes:

(1) Mr. Song is designated by the Nanshan Group as the sole registered school sponsor of the Target College.

(2) The transaction agreements include (a) the Framework Procurement Agreement I, and (b) the Framework Supply Agreement I.

(3) The transaction agreements include (a) the Acquisition Agreement, and (b) the Structured Contracts. Please refer to the section headed "Contractual Arrangements — Operation of the Contractual Arrangements" in this circular for further illustrations on the flow of economic benefits under the Structured Contracts.

(4) The transaction agreements include (a) the Acquisition Agreement, and (b) the Structured Contracts.

(5) The transaction agreements include (a) the Framework Procurement Agreement II, and (b) the Framework Supply Agreement II.

(6) The Framework Supply Agreement IV.

(7) The transaction agreements include (a) the Framework Procurement Agreement III, and (b) the Framework Supply Agreement III.

INDEPENDENCE FROM NANSHAN GROUP

On the basis of the following reasons, the Directors are of the view that the Target College is capable to carry on its business independently from Nanshan Group:

Management and operational independence

Pursuant to the articles of association of the Target College, the operations and management of the Target College were delegated to the core management team (comprising the principal and vice-principals of the Target College) by the board of directors of the Target College.

During the Track Record Period and up to the Latest Practicable Date, the principal and vice-principals of the Target College have assumed responsibilities for the day-to-day operation and key decision making of the Target College, and they contributed directly to the results of the Target College. In particular, in accordance with the articles of association of the Target College, the principal has assumed several key functions including, among others, (i) the day-to-day operation of the Target College; (ii) implementing the annual business plans of the Target College; (iii) formulating plans for the internal organisation structure of the Target College; and (iv) formulating internal management system of the Target College. The core management team of the Target College responsible for the management and operation of the Target College during the said period and upon Completion includes Mr. Wu Guohua (吳國華), Mr. Liu Chenggang (劉承鋼), Mr. Liang Yubing (梁玉冰), Mr. Zhang Jisong (張吉松), Mr. Luo Zhenming (羅振明), Mr. Qiao Renjie (喬仁潔), Mr. Yang Wanli (楊萬利), Mr. Xu Huizhong (徐惠忠) and Mr. Chen Zhongquan (陳忠全). For their further details, please refer to the section headed "Core Management Team of the Target College" in this circular. Save for the overlapping roles of principal/vice principal and director of the Target College of Mr. Wu Guohua, Mr. Qiao Renjie, Mr. Yang Wanli and Mr. Xu Huizhong, each of them is an independent third party of (a) the Nanshan Group and its directors; and (b) the board of directors of the Target College. For the avoidance of doubt, Mr. Song, the Nanshan Village Committee and the directors or senior management members of the Nanshan Group were not involved in the management and operation of the Target College during the said period. Further, none of the members of the core management team of the Target College has any role in or relationship with the Nanshan Group and its associates.

The Target College does not share any operation team, facilities and equipment with Nanshan Group. The Target College is also in possession of all relevant licences, permits and approvals necessary to carry on and operate its business and it has sufficient workforce to operate independently from Nanshan Group.

During the Track Record Period, the major source of revenue of the Target College were tuitions fees and boarding fees received from students, which collectively accounted for approximately 94.8%, 93.1%, 94.0% and 99.0% of the total revenue of the Target College, respectively, and the service fee income from Nanshan Group, the associates of Mr. Song, and their respective subsidiaries (collectively, the "**Nanshan Entities**") was comparatively insignificant. Further, while the Target College collaborates with various enterprises including the Nanshan Entities to provide school-enterprise collaboration programmes to its students, the Nanshan Entities only constitute a slight portion of the enterprise partners which the Target College works with. As at the Latest Practicable Date, out of 190 enterprises which have entered into cooperation agreements with the Target College in relation to the provision of school-enterprise collaboration programmes, 179 of them are Independent Third Parties.

During the Track Record Period and up to the Latest Practicable Date, save for (i) the supply of Group A Services to Nanshan Group and its subsidiaries and/or associates under the Framework Supply Agreement I; (ii) the procurement of Group B Goods and Services from Nanshan Group and its subsidiaries and/or associates under the Framework Procurement Agreement I; (iii) the provision of catering services to Nanshan Group and its subsidiaries and/or associates; and (iv) the procurement of certain utilities and consumer goods and services from Nanshan Group and its subsidiaries and/or associates, Nanshan Group was not and will not be involved in the management and operation of the Target College. For further details of the said transactions with Nanshan Group, please refer to the section headed "Continuing Connected Transactions" in this circular. It is expected that even the Target College does not supply or procure such goods and services to/from Nanshan Group and its subsidiaries and/or associates, there will be other comparable customers or service providers (where applicable) readily available in the market for replacement. Therefore, the Directors are of the view that there is management and operational independence between the Target College and Nanshan Group.

Financial independence

As at 31 December 2019, 2020 and 2021 and 31 March 2022 , there was no amount due to a shareholder (i.e. Nanshan Group) by the Target College. During the Track Record Period, the Target College had cash flows in the form of (i) advances to a shareholder (i.e. Nanshan Group) of approximately RMB513.6 million, RMB567.0 million, RMB771.9 million and RMB10.5 million, respectively, and (ii) repayments from such shareholder in the amount of approximately RMB395.6 million, RMB534.6 million, RMB996.3 million and RMB47.8 million, respectively. Save as to the advances of approximately RMB113.8 million made by the Target College to Nanshan Group in respect of the Target College's purchase of properties from Nanshan Group during the year ended 31 December 2021, the remaining advances and repayments set out above, represented cash advances between the Target College and Nanshan Group, which were non-trade in nature, interest-free and would not recur after Completion. Such cash advances between the Target College and Nanshan Group were primarily due to the better utilisation of excess cash, such as tuition and boarding fees received in advance, among the companies controlled by Nanshan Group for its internal funding needs. With respect to the said purchase of properties by the Target College from Nanshan Group, the properties comprise a parcel of land with a site area of approximately 35,171 sq.m., and a building with gross floor area of approximately 35,796 sq.m., and are used as cultural facilities. The Target College obtained the relevant title certificates of the properties in October 2021, and the total consideration of approximately RMB113.8 million was also fully settled in October 2021. The Target College currently has no intention to further purchase properties from Nanshan Group. The Target College's amounts due to its fellow subsidiaries (i.e. subsidiaries of Nanshan Group) as at 31 December 2019, 2020 and 2021 and 31 March 2022 were approximately RMB57.0 million, RMB50.3 million, RMB5.4 million and RMB14.0 million, respectively. Out of the amount due to fellow subsidiaries as at 31 March 2022, approximately RMB6.7 million is trade related nature and approximately RMB7.4 million is non-trade related nature. The Target College confirms that the non-trade related balance of amount due to fellow subsidiaries will be settled upon Completion. The Target College's amount due from a shareholder (i.e. Nanshan Group) as at 31 December 2019, 2020 and 2021 and 31 March 2022 were approximately RMB295.6 million, RMB332.4 million, RMB107.8 million and RMB69.8 million, respectively. Other than a balance of approximately RMB0.7 million as at 31 March 2022 which was trade in nature, the remaining balances primarily represented advances to the shareholder and were of non-trade nature. The Target College's cash placed at Nanshan Group Finance Co. Ltd.* (南山集團財務有限公司) ("**Nanshan Finance**") as at 31 December 2019, 2020 and 2021 and 31 March 2022 was approximately RMB3.0 million, RMB0.1 million, RMB45.5 million and RMB2.2 million, respectively. Nanshan Finance, being a subsidiary of the Nanshan Group, is a financial institution registered under the China Banking and Insurance Regulatory Commission and the said balances represented the deposit placed by the Target College in its account held with Nanshan Finance. Prior to Completion, the Target College will transfer the said sum of money to its accounts held with banks that are independent third parties.

As at 31 December 2019, 2020 and 2021 and 31 March 2022 , there was no outstanding loan guaranteed by Nanshan Group and/or its subsidiaries.

As mentioned above, it is expected that the business of the Target College can be funded independently by its operational cash flow. In view of the foregoing, the Directors are of the view that there will be financial independence between the Target College and the Nanshan Group upon Completion.

NON-COMPETITION UNDERTAKING

In February 2019, Ms. Sui and Union Capital, as controlling shareholders of the Company, and the Company (for itself and as trustee of its subsidiaries) entered into a deed of non-competition (the "**Deed of Non-competition**"), pursuant to which, among others, subject to the terms and conditions as set out therein, each of Ms. Sui and Union Capital undertakes to and covenants with the Company that she/it will not, and will procure her/its close associates and/or the companies controlled by her/it (other than members of the Group) not to, directly or indirectly, either on her/its own account or in conjunction with or on behalf of any person, firm or company, partnership, joint venture, or other contractual arrangement, among other things, whether directly or indirectly, for profit or not, carry on, participate or be engaged in, invest in, acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise and whether for interest, return or otherwise) or provide any form of assistance to any business which is or may be similar to or in competition with the business carried on or contemplated to be carried on by any member of the Group from time to time, including but not limited to the provision of finance leasing and related advisory services (the "**Restricted Business**").

Upon Completion, the financial results of the Target College will be consolidated to the consolidated financial statements of the Group. Accordingly, the business of the Target College (i.e. operating higher private education institution in the PRC) will become one of the main businesses carried on by the Group, thereby the scope of the Restricted Business as defined in the Deed of Non-competition will include operations of higher private education institution in the PRC upon Completion.

FINANCE LEASING CONTRACT BETWEEN THE TARGET COLLEGE AND THE GROUP

In 2019, Nanshan Financial Leasing (Tianjin) Co., Ltd.* (南山融資租賃(天津)有限公司) ("**Nanshan Leasing**"), an indirectly wholly-owned subsidiary of the Company, (as lessor) and the Target College (as lessee) entered into a finance leasing contract in relation to the assignment and lease of certain appliances (the "**Finance Leasing Contract**").

The principal terms of the Finance Leasing Contract are set out below:

Leased asset:	kitchen equipment, furniture, laboratory equipment, street lamp and landscape lighting equipment as well as monitoring equipment, central air-conditioning and other equipment
Aggregated rental fee:	approximately RMB135.5 million
Term:	60 months

As (i) the Company intended to better manage the cashflow and reduce its bank debt levels and (ii) the Target College intended to cut costs and reduce lease expenses, in June 2021, Nanshan Leasing and the Target College entered into a termination agreement relating to the Finance Leasing Contract, pursuant to which Nanshan Leasing and the Target College agreed to early terminate the Finance Leasing Contract.

As at the Latest Practicable Date, the Group did not have dealings in finance leasing business with the Target College.

THE FRAMEWORK AGREEMENTS

Introduction

The Target College has in its ordinary course of business regularly provided and/or procured various goods and services (including but not limited to staff training services) to/from the Connected Transaction Counterparties and their subsidiaries and/or associates. It is expected that such transactions will continue after Completion.

On 6 July 2022 (after trading hours), the Target College entered into the Framework Agreements (comprising the Framework Supply Agreements and the Framework Procurement Agreements) with the Connected Transaction Counterparties for the Target College's supply of the Group A Services and the Target College's procurement of the Group B Goods and Services. Subject to the fulfilment of conditions precedents, the Framework Agreements will become effective upon Completion.

Principal Terms of the Framework Agreements

Framework Supply Agreements

The principal terms of the Framework Supply Agreements are set out as follows:

Date:	6 July 2022 (after trading hours)
Parties:	(i) For the Framework Supply Agreement I, the parties are the Target College and Nanshan Group; (ii) For the Framework Supply Agreement II, the parties are the Target College and Longkou Nanshan; (iii) For the Framework Supply Agreement III, the parties are the Target College and Longkou Management; and (iv) For the Framework Supply Agreement IV, the parties are the Target College and Nanshan Development.
Subject matter:	Pursuant to the Framework Supply Agreements, the Target College agrees to provide the Group A Services to Nanshan Group, Longkou Nanshan, Longkou Management and Nanshan Development and their respective subsidiaries and/or associates during the term of the Framework Supply Agreements.

Transaction principles: As the Framework Supply Agreements only set out the framework of the transactions to be conducted, individual supply agreements shall be entered into for the specific Group A Services to be supplied by the Target College.

The terms of the individual supply agreements shall be negotiated by the parties at arm's length and on normal commercial terms in the ordinary course of business, and shall set out, among others, the scope and standard of the good and services to be supplied by the Target College, the consideration payable to the Target College, as well as the settlement method.

The scope of the individual supply agreements shall not exceed the scope specified under the Framework Supply Agreements. In the event of conflicts between the terms of the individual supply agreements and the Framework Supply Agreements, the terms of the Framework Supply Agreements shall prevail.

Pricing principles: The price of the Group A Services shall be determined as follows:

(i) the published or listed price of the relevant services from time to time issued by the Target College. Such published or listed price is determined by the Target College on a "cost-plus" basis and will be subject to annual review by the Target College taking into account, among others, the costs of the relevant services to ensure that a reasonable profit is enjoyed by the Target College; and

(ii) where there is no published or listed price, the price which the Target College charges its independent third party customers for the relevant services (where applicable), taking into account, among others, the specifications of the services supplied and the relevant costs of providing such services (where applicable).

For the training services to be provided by the Target College, the Target College will prepare a fee schedule annually listing out the respective training fees per participant for each staff grading according to seniority (e.g. ordinary staff grade, junior managerial grade etc.). In general, the training fees will commensurate with the seniority of the participants, reflecting the complexity and hence costs of the training services to be provided. The training fees as set out in the fee schedule will be determined on a "costs-plus" basis and it is expected that a gross margin of at least 30% will be maintained. The Target College will determine the gross margin with reference to, among others, the fees charged by other market players in respect of the same or similar staff training services, with a view to strike a balance between profitability and market competitiveness. In the event that the relevant customer under the Framework Supply Agreements requires customised staff training services that are not covered by the then existing fee schedule, the Target College will determine the training fees with reference to, among others, (a) the costs of providing the requested training services; (b) the fees charged against independent third party customers in respect of staff training services of similar nature or with similar elements (if any), and the final training fees charged by the Target College shall not be lower than such fees; and (c) the fees charged by other market players in respect of the same or similar staff training services (if any), so as to ensure that the final training fees charged by the Target College will be no less favourable than those offered to, or quoted by, independent third party customers.

With respect to the venue rental services to be provided by the Target College, the Target College will determine the rental fees with reference to, among others, (a) scale and duration of the relevant event proposed to be held at the requested venue; (b) the costs of providing the requested venue including utilities and relevant staff cots; (c) the fees charged against independent third party customers for renting the same venue (if any), and the final rental fees charged by the Target College shall not be lower than such fees; and (d) the market rate of comparable venues in terms of floor area and availability of ancillary equipment, so as to ensure that the final rental fees charged by the Target College will be no less favourable than those offered to, or quoted by, independent third party customers.

With respect to the catering services to be provided by the Target College, they are the restaurants or canteens operated by the Target College which are opened to the public for business. The meals sold in such restaurants or canteens are the same for all customers (including independent third party customers), and are charged according to the same menu prices set by the Target College on a "costs-plus" basis with reasonable margin. Accordingly, the provision of catering services under the Framework Supply Agreements is no less favourable than that with independent third party customers.

Settlement method: The prices payable to the Target College may be settled by periodic payments, in a lump sum or by instalments, or in such other manner as may be agreed between the parties under the individual supply agreements with reference to market practice according to the nature of goods or services supplied.

Termination: The Framework Supply Agreements may be terminated prior to the expiration of their term by mutual written consent of the parties. Upon termination of the Framework Supply Agreements, the relevant individual supply agreements which are still subsisting shall also terminate accordingly.

Term: The Framework Supply Agreements are effective upon fulfilment of the following conditions precedent:

(i) approval(s) by the Board having been obtained for the transactions contemplated under the Framework Supply Agreements; and

(ii) the Completion taking place.

Subject to the fulfilment of the above conditions precedent, the Framework Supply Agreements shall be effective upon Completion and shall expire on 31 December 2024.

Framework Procurement Agreements

The principal terms of the Framework Procurement Agreements are set out as follows:

Date:	6 July 2022 (after trading hours)
Parties:	(i) For the Framework Procurement Agreement I, the parties are the Target College and Nanshan Group; (ii) For the Framework Procurement Agreement II, the parties are the Target College and Longkou Nanshan; and (iii) For the Framework Procurement Agreement III, the parties are the Target College and Nanshan Development.
Subject matter:	Pursuant to the Framework Procurement Agreements, the Target College will procure the Group B Goods and Services from Nanshan Group, Longkou Nanshan and Nanshan Development and their respective subsidiaries and/or associates during the term of the Framework Procurement Agreements.
Transaction principles:	As the Framework Procurement Agreements only set out the framework of the transactions to be conducted, individual procurement agreements shall be entered into for the specific Group B Goods and Services to be procured by the Target College. The terms of the individual procurement agreements shall be negotiated by the parties at arm's length and on normal commercial terms in the ordinary course of business, and shall set out, among others, the scope and standard of the good and services to be procured by the Target College, the consideration payable by the Target College, as well as the settlement method. The scope of the individual procurement agreements shall not exceed the scope specified under the Framework Procurement Agreements. In the event of conflicts between the terms of the individual procurement agreements and the Framework Procurement Agreements, the terms of the Framework Procurement Agreements shall prevail.

Pricing principles: The price of the Group B Goods and Services shall be determined with reference to the price charged by at least two independent third party suppliers who offer the same or similar type of goods or services under normal commercial terms, taking into account the quantity of the goods or the specifications of the services procured (where applicable).

As the goods to be procured by the Target College, including staff uniforms, furniture and fixtures such as desks and chairs, gifts and souvenirs such as desktop ornaments, and gasoline, petrol and diesel, are all normal goods and commodities where independent third party suppliers are available in the market, the Target College will seek and compare quotes for similar products from at least two independent third party suppliers in the market before making a purchase in order to determine if the prices and terms offered by the relevant supplier under the Framework Procurement Agreements are comparable to those offered by such independent third party suppliers, and assess and review their fairness and reasonableness. If the Target College obtains more reasonable prices and terms for similar products under the Framework Procurement Agreements from independent third party suppliers, the Target College will negotiate with the relevant supplier under the Framework Procurement Agreements for comparable price and terms for such products, and has the full discretion not to procure from the relevant supplier under the Framework Procurement Agreements.

With respect to the repairing and maintenance services such as teaching equipment repairment and school facilities maintenance, campus sanitary and cleaning services, gardening and greening services such as lawn maintenance, laboratory testing services and catering and accommodation services to be procured by the Target College, independent third party suppliers are likewise available in the market. Similarly, the Target College will seek and compare quotes for similar services from at least two independent third party suppliers in the market before making a purchase in order to determine if the prices and terms offered by the relevant supplier under the Framework Procurement Agreements are comparable to those offered by such independent third party suppliers, and assess and review their fairness and reasonableness. If the Target College obtains more reasonable prices and terms for similar services under the Framework Procurement Agreements from independent third party suppliers, the Target College will negotiate with the relevant supplier under the Framework Procurement Agreements for comparable price and terms for such services, and has the full discretion not to procure from the relevant supplier under the Framework Procurement Agreements.

For the venue rental services to be procured by the Target College, the Target College will seek and compare quotes for at least two comparable venues (in terms of floor area and availability of ancillary equipment) in the market from independent third party suppliers as and when the need for external venue arises, so as to determine if the prices and terms offered by the relevant supplier under the Framework Procurement Agreements are comparable to those offered by such independent third party suppliers, and assess and review their fairness and reasonableness. If the Target College obtains more reasonable prices and terms for comparable venues under the Framework Procurement Agreements from independent third party suppliers, the Target College will negotiate with the relevant supplier under the Framework Procurement Agreements for comparable price and terms for such venues, and has the full discretion not to procure from the relevant supplier under the Framework Procurement Agreements.

Settlement method: The prices payable by the Target College shall be settled in accordance with the terms of the individual procurement agreements, to be determined reference to market practice according to the nature of goods or services supplied.

Termination: The Framework Procurement Agreements may be terminated prior to the expiration of their term by mutual written consent of the parties. Upon termination of the Framework Procurement Agreements, the relevant individual procurement agreements which are still subsisting shall also terminate accordingly.

Term: The Framework Procurement Agreements are effective upon fulfilment of the following conditions precedent:

(i) approval(s) by the Board having been obtained for the transactions contemplated under the Framework Procurement Agreements;

(ii) approval(s) by the Independent Shareholders having been obtained for the transactions contemplated under the Framework Procurement Agreements; and

(iii) the Completion taking place.

Subject to the fulfilment of the above conditions precedent, the Framework Procurement Agreements shall be effective upon Completion and shall expire on 31 December 2024.

Actual historical transaction amounts

The following table summarises the aggregate amount of the historical goods and services supply and procurement transactions between the Target College on one hand and the Connected Transaction Counterparties and their subsidiaries and/or associates on the other hand:

	For the year ended 31 December			For the three months ended 31 March
Category	**2019**	**2020**	**2021**	**2022**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Amount of supply by the Target College *(Note 1)*	1,395	14,021	3,825	84
Amount of procurement by the Target College *(Note 2, 3)*	23,240	21,269	18,788	4,489

Notes:

(1) The relatively higher amount of supply by the Target College for the year ended 31 December 2020 was primarily attributable to a relatively large scale staff training services provided to a subsidiary of Nanshan Group during the year ended 31 December 2020, where such relatively large scale staff training services are only occasionally required by the said customer. As no staff training services of similar scale had been provided to the said customer during the year ended 31 December 2021, the amount of supply by the Target College for the same period decreased to approximately RMB3.8 million only. During the three months ended 31 March 2022, social distancing measures had been implemented by the local government to prevent the spread of COVID-19, such that the Target College had postponed or cancelled the group staff training courses it provided. There was also a decrease in the catering services provided by the Target College during the said period due to the Lunar New Year long holidays. As a result, the amount of supply by the Target College for the three months ended 31 March 2022 amounted to approximately RMB0.1 million only.

(2) In general, the students of the Target College are enrolled and registered during September and October of each year. The Target College would generally make a substantial portion of its procurement in the fourth quarter of each year based on the number of students enrolled, and hence the projected needs of the relevant goods and services for the corresponding school year.

(3) For the years ended 31 December 2019 and 2020, the procurement of the Target College included staff training fee of approximately RMB6.4 million and RMB2.6 million, respectively, incurred for the preparation of new courses to be offered by the Target College. The Target College does not expect to procure similar staff trainings from the Connected Transaction Counterparties in future. Excluding the aforesaid training fees, the historical procurement amount of the Target College would have been approximately RMB16.8 million, RMB18.7 million and RMB18.8 million for the years ended 31 December 2019, 2020 and 2021, respectively, which were generally in-line with the number of student enrollment of the Target College during the said periods.

Annual caps and basis of determination

The proposed annual caps for the Framework Supply Agreements and Framework Procurement Agreements for the five months ending 31 December 2022 and the years ending 31 December 2023 and 2024 are set out below:

Category	For the five months ending 31 December 2022 *(Note)*	For the year ending 31 December 2023	2024
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Framework Supply Agreements	3,000	4,350	4,800
Framework Procurement Agreements	18,500	33,000	37,000

Note: The proposed annual caps for the five months ending 31 December 2022 are for illustrative purpose only, assuming Completion will take place on 1 August 2022. Pursuant to the terms of the Framework Agreements, the commencement date of the Framework Agreements shall be the date of Completion, assuming other conditions precedent have already been fulfilled by then.

The above proposed annual caps for the Framework Supply Agreements and Framework Procurement Agreements are determined with reference to, among others, the followings:

(i) the historical transaction amounts in relation to the supply and procurement of goods and services by the Target College. In this connection, as compared to the year ended 31 December 2019, there was a decrease in the amount of procurement by the Target College for the year ended 31 December 2020, primarily due to the outbreak of COVID-19 in 2020 which resulted in the temporary closure of campus of the Target College, and hence a decrease in the overall procurement of the relevant goods and services. With respect to the actual transaction amount of supply by the Target College for the three months ended 31 March 2022, there was a decrease in the provision of staff training courses by the Target College in light of the social distancing measures implemented by the local government for the prevention of the outbreak of COVID-19. Coupled with the decrease in the catering services provided by the Target College due to the Lunar New Year long holidays, the amount of supply by the Target College during the three months ended 31 March 2022 amounted to approximately RMB0.1 million only. Nevertheless, given that the social distancing measures had been lifted by the local government as at the Latest Practicable Date, and that the Target College had fully resumed the provision of staff training courses, coupled with the reasons set out in paragraphs (ii) & (iv) below, the Target College considers the annual caps of the Framework Supply Agreements as set out above to be justifiable. With respect to the actual transaction amount of procurement by the Target College for the three months ended 31 March 2022, as students of the Target College are generally enrolled and registered during September and October of each year, the Target College would generally make a substantial portion of its procurement in the fourth quarter of each year based on the number of students enrolled, and the projected needs of the relevant goods and services for the corresponding school year, such that the amount of procurement by the Target College during the same period amounted to approximately RMB4.5 million. In light of the approximately 13.5% increase in the Target College's enrollment for the school year 2021/2022 as compared to that of the school year 2020/2021, and the reasons set out in paragraphs (ii) & (iii) below, the Target College considers the annual caps of the Framework Procurement Agreements as set out above to be justifiable;

(ii) the growth of the consumer price index of the PRC ("**CPI**") of approximately 2% on average as published by the National Bureau of Statistics, which is also an indication of the inflation rate in the PRC. It is assumed that the CPI will grow at approximately the same rate from 2022 to 2024, and such assumption has also been reflected in the increasing annual caps under the Framework Supply Agreements and the Framework Procurement Agreements;

(iii) the expected scale of operations of the Target College for the five months ending 31 December 2022 and years ending 31 December 2023 and 2024. It is expected that the Target College will continue to expand its scale of operations and the student enrollment of the Target College is expected to grow in the coming years. In this connection, the number of student enrollment of the Target College is expected to grow at an average rate of 8.6% per school year with reference to historical growth rate. Correspondingly, the Target College will have increasing operational needs to cope with the expected increase in student enrollment, which will in turn drive the demand for the Group B Goods and Services. Whilst such operational needs are positively correlated to the increase in student enrollment, certain of them are expected to increase in a progressive manner not squarely proportionate to the expected growth rate of student enrollment, in part due to their nature. For instance, the demand for external venues are more directly related to the number of off-campus teaching activities, which is in turn affected by a number of factors including curriculum design and teaching schedules, on top of number of student enrollment. Further, going forward, the Target College also intends to outsource certain ancillary operations including campus sanitary and cleaning and dormitory management. The expected increase in operational need for such services is in turn driven by, among others, the expected growth in the Target College's student enrollment, as well as the expected increase in the Target College's scale of operations. In addition to, the increase in student enrollment would expedite the wear and tear of school facilities, which would also drive the Target College's demand for school facilities maintenance services. In this connection, the Target College's expected demand for school facilities maintenance services each year is primarily based on the ages of the facilities, and adjusted for additional wear and tear due to the growth in student enrollment. In light of the aforesaid, the procurement needs of the Target College are expected to increase correspondingly, albeit not squarely proportionate to the expected growth in student enrollment, thus resulting in the increasing annual caps under the Framework Procurement Agreements; and

(iv) with respect to the Framework Supply Agreements, the expected needs of the Connected Transaction Counterparties and their subsidiaries and/or associates, taking into account, among others, their expected development plans and the expected increment, mobility, turnover and capabilities required of their staff, based on the Target College's communications with the Connected Transaction Counterparties.

Reasons and benefits of the Framework Agreements

The transactions contemplated under the Framework Agreements will be conducted in the ordinary and usual course of business of the Target College.

In view of the long-standing and amicable business relationship between the Target College and the Connected Transaction Counterparties, the Connected Transaction Counterparties are reliable business partners and future business cooperation between the Target College and the Connected Transaction Counterparties will be beneficial to the operations of the Target College.

With respect to the Framework Supply Agreements, the Directors consider that:

(i) the terms and conditions of the Framework Supply Agreements have been negotiated on an arm's length basis and are normal commercial terms that are fair and reasonable;

(ii) the proposed annual caps for the Framework Supply Agreements for the five months ending 31 December 2022 and years ending 31 December 2023 and 2024 are fair and reasonable; and

(iii) the transactions contemplated under the Framework Supply Agreements are in the interest of the Company and the Shareholders as a whole.

As regards the Framework Procurement Agreements, the Directors (including the independent non-executive Directors whose recommendation is set out in the letter from the Independent Board Committee in this circular) consider that:

(i) the terms and conditions of the Framework Procurement Agreements have been negotiated on an arm's length basis and are normal commercial terms that are fair and reasonable;

(ii) the proposed annual caps for the Framework Procurement Agreements for the five months ending 31 December 2022 and years ending 31 December 2023 and 2024 are fair and reasonable; and

(iii) the transactions contemplated under the Framework Procurement Agreements are in the interest of the Company and the Shareholders as a whole.

Internal Control Measures

To ensure that the terms of the transactions under the Framework Agreements are on normal or better commercial terms and in accordance with the terms of the Framework Agreements, and compliance with the Listing Rules, the following internal control measures will be in place:

1. when possible connected transaction arises during the course of business of the Target College which falls under the Framework Agreements, relevant staff will report to the finance department of the Target College regarding the details of the connected party and the possible transaction with such connected party;

2. the relevant business department of the Target College will obtain quotations and transaction terms from independent third parties in respect of comparable goods or services in accordance with the principal principles mentioned above, where applicable;

3. the possible connected transaction will need to be approved by the management of the Target College, who will consider, among others, whether the terms and price of the transaction are fair and reasonable, normal commercial terms or better, no less favourable than those with independent third parties, and in compliance with the terms of the Framework Agreements;

4. if the possible connected transaction is approved to be conducted, the finance department of the Target College will regularly monitor the performance of the transaction to ensure that the transaction falls within the terms of the Framework Agreements;

5. the finance department of the Target College will also monitor the transaction amounts under the Framework Agreements regularly to ensure that the transaction amounts have not exceeded and will not exceed the approved annual caps. If the actual transaction amount reaches a certain percentage of the approved annual caps, or it is expected that a substantial portion of the approved annual caps will be utilised within a short period of time, the finance department of the Target College will report to the chief financial officer of the Company, who will then consider whether it is necessary to revise the annual caps amount and re-comply with the relevant Listing Rules requirements;

6. the independent non-executive Directors will be provided with the Framework Agreements and the quotations obtained, as well as the report on the transaction details, for the purpose of conducting annual review of the connected transactions under the Framework Agreements; and

7. the auditors of the Company will also conduct annual review of the transactions under the Framework Agreements.

Listing Rules Implication

Upon Completion, the Company will gain effective control over the Target College and enjoy 70.0% of the economic benefits generated by the Target College, and the financial results of the Target College will be consolidated to the consolidated financial statements of the Group.

Nanshan Group was owned as to 51.0% by Nanshan Village Committee and 49.0% by Mr. Song Jianbo (the spouse of Ms. Sui), as at the Latest Practicable Date, and is therefore a connected person of the Company. Further, as at the Latest Practicable Date, (i) Longkou Nanshan was owned as to approximately 83.3% by Mr. Song, and 16.7% by Ms. Lv, the spouse of Mr. Song, (ii) Nanshan Development was owned as to approximately 63.7% by Mr. Song, and (iii) Longkou Management was owned as to 70.0% by Mr. Song and 30.0% by Ms. Lv. As such, Longkou Nanshan, Nanshan Development and Longkou Management are associates of Mr. Song pursuant to the Listing Rules and are therefore connected persons of the Company.

Accordingly, the transactions contemplated under the Framework Agreements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon Completion.

Given (i) the relationship between Mr. Song and Mr. Song Jianbo and their respective interests in the Connected Transaction Counterparties, (ii) the similar nature of the Framework Supply Agreements, and (iii) the Framework Supply Agreements were all entered into within a 12-month period, the transactions under the Framework Supply Agreements form a series of transactions which should be treated as if they were one transaction pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. On the same token, the transactions under the Framework Procurement Agreements also form a series of transactions and should be treated as if they were one transaction pursuant to Rules 14A.81 and 14A.82 of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profit ratio) in respect of the annual caps under the Framework Procurement Agreements is more than 5.0%, and the aggregate annual consideration payable under the Framework Procurement Agreements, on an annual basis, is more than HK$10,000,000, the entering into of the Framework Procurement Agreements is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

With respect to the Framework Supply Agreements, as one or more of the applicable percentage ratios (other than the profit ratio) in respect of the annual caps thereunder is more than 1.0% but all the applicable percentage ratios (other than the profit ratio) are less than 5.0%, and that the aggregate annual consideration payable under the Framework Supply Agreements, on an annual basis, exceeds HK$3,000,000, the entering into of the Framework Supply Agreements is subject to the reporting and announcement requirements but exempted from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

OTHER TRANSACTIONS WITH NANSHAN GROUP AND LONGKOU NANSHAN

Procurement of utilities by the Target College

The Target College has been procuring utilities such as gas, water, steam and electricity from Nanshan Group and Longkou Nanshan and their respective subsidiaries and/or associates from time to time. It is expected that such procurement of utilities by the Target College will continue after Completion.

Nevertheless, as (i) such utilities are of a type ordinarily supplied for private use or consumption, (ii) such utilities are for the Target College's own consumption and use, not processed into any products or resale, and not used by the Target College for any of its businesses, (iii) such utilities are consumed and used by the Target College in the same state as when they were bought, (iv) there is an open market and transparency in the pricing of the utilities procured by the Target College, particularly as the local government has prescribed the "government-guided price (政府指導價格)" for utilities supplied, which are announced publicly and followed by all utilities providers within the area (including Nanshan Group and Longkou Nanshan), such that all utilities providers within the area charge all their customers (including the Target College) at such "government-guided price", and (v) the procurement of utilities by the Target College has been and will be made on the "government-guided price", and hence no less favourable to the Target College than those offered by independent third party suppliers in the open market, and accordingly such utilities procurement transactions will be exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.97 of the Listing Rules.

THE CONTRACTUAL ARRANGEMENTS

As part of the Acquisition arrangement, Longkou Zhimin will enter into the Structured Contracts (comprising the 1st set of Structured Contracts and the 2nd set of Structured Contracts) with, among others, Mr. Song, Nanshan Group, the Designated School Sponsor and/or the Registered Shareholder(s), in order for the Group to gain effective control over the Target College and enjoy 70.0% of the economic benefits generated by the Target College through the Contractual Arrangements. For further information on the Contractual Arrangements, including the reasons for adopting the Contractual Arrangements and details of the principal terms of the Contractual Arrangements, please refer to the section headed "Contractual Arrangements" in this circular.

Given that Mr. Song is a connected person of the Company, and that Nanshan Group is a connected person of the Company, the Contractual Arrangements will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to the reporting, announcement, circular and Independent Shareholders' approval requirements as set out in Chapter 14A of the Listing Rules.

The Company has applied for and the Stock Exchange has granted a waiver from strict compliance with (i) the requirement of fixing the term of the Contractual Arrangements and having a term not exceeding three years under Rule 14A.52 of the Listing Rules; and (ii) the requirement of setting annual caps for the Contractual Arrangements under Rule 14A.53 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange. For details, please refer to the section headed "Waivers from Strict Compliance with the Listing Rules" in this circular.

The following sets out certain information of the core management team members of the Target College who shall continue to serve the Target College after Completion:

Name	Age	Major position(s)	Date of appointment	Date of joining the Target College	Business address
Wu Guohua (吳國華)	69	Principal[1] Secretary of Party Committee Director	February 2017 July 2021 July 2015	April 2012	Yantai Nanshan University, Longkou City, Shandong Province, the PRC
Yang Wanli (楊萬利)	59	Vice-principal[2] Director	July 2020 April 2022	July 2020	Yantai Nanshan University, Longkou City, Shandong Province, the PRC
Liu Chenggang (劉承鋼)[3]	41	First vice-principal	July 2021	February 2006	Yantai Nanshan University, Longkou City, Shandong Province, the PRC
Liang Yubing (梁玉冰)	39	Vice-principal Head of human resources department	June 2010	June 2010	Yantai Nanshan University, Longkou City, Shandong Province, the PRC
Zhang Jisong (張吉松)	47	Supervisor Vice-principal	March 2021 December 2016	July 1997	Yantai Nanshan University, Longkou City, Shandong Province, the PRC
Luo Zhenming (羅振明)	53	Vice-principal Supervisor	July 1996 March 2021	July 1996	Yantai Nanshan University, Longkou City, Shandong Province, the PRC

1 Pursuant to the relevant statutory requirements, Mr. Wu is expected to retire from his position as the principal of the Target College prior to Completion as he will soon reach the age of 70 years old. He will however continue to be with the Target College and serve as part of the core management team, and responsible for formulating key business strategies of the Target College.

2 Dr. Yang is expected to be appointed as the principal of the Target College after Mr. Wu's retirement from such position, and will then be responsible for, among others, the overall management of the Target College.

3 Mr. Liu was appointed as a vice principal of the Target College in January 2016 and has been promoted as the first vice principal since July 2021.

Name	Age	Major position(s)	Date of appointment	Date of joining the Target College	Business address
Qiao Renjie (喬仁潔)	42	Vice-principal Director	March 2016 April 2022	May 2008	Yantai Nanshan University, Longkou City, Shandong Province, the PRC
Chen Zhongquan (陳忠全)	61	Vice-principal Dean of the Business School	May 2015	May 2015	Yantai Nanshan University, Longkou City, Shandong Province, the PRC
Xu Huizhong (徐惠忠)	60	Vice-principal Dean of the School of Engineering Director	April 2020 February 2021 March 2021	April 2020	Yantai Nanshan University, Longkou City, Shandong Province, the PRC

Mr. Wu Guohua (吳國華), aged 69, is the principal, Secretary of Party Committee and a director of the Target College since February 2017, July 2021 and July 2015, respectively, and is responsible for, among others, formulating key business strategies and the overall management of the Target College. Mr. Wu joined the Target College in April 2012 as the vice principal and the Dean of the School of Management. Mr. Wu has approximately 12 years of experience in education. Prior to joining the Target College, Mr. Wu had served as a professor and the head of the Experimental Education Centre of Management of Shandong University of Finance and Economics.

Dr. Yang Wanli (楊萬利), aged 59, is a vice-principal and a director of the Target College and is responsible for teaching management, teaching quality monitoring and evaluation. Dr. Yang joined the Target College in July 2020 and has over 11 years of experience in education. Prior to joining the Target College, Dr. Yang served as a vice-principal of Yunnan Technology and Business University in Yunnan, PRC, and was responsible for teaching quality monitoring and evaluation, personnel management, financial management, management reform and performance appraisal. He has also previously worked as a vice-principal of Zhuhai College of Jilin University* (吉林大學珠海學院) (now known as Zhuhai College of Science and Technology) in Guangdong, PRC, and a professor in Army Armoured Forces Academy of People's Liberation Army (中國人民解放軍裝甲兵工程學院) in Beijing, PRC.

Dr. Yang graduated from Hebei Normal University in Hebei, PRC with a bachelor's degree in mathematics in July 1983 and a master's degree in fundamental mathematics in July 1988. Dr. Yang then obtained his doctoral degree in Science from Lanzhou University in Gansu, PRC in June 1995. Dr. Yang was appointed as a member of Higher Education University-level Mathematics Teaching Steering Committee* (高等學校大學數學課程教學指導委員會) in April 2013 by the MOE for the period from 2013 to 2017, and he has also been appointed as a member of the China Industry-University-Research Institute Collaboration Association (中國產學研合作促進會) in October 2021 for the period from October 2021 to September 2026.

Mr. Liu Chenggang (劉承鋼), aged 41, is the first vice-principal of the Target College since July 2021 and is responsible for students' admission and employment. Mr. Liu joined the Target College in February 2006 as the assistant to the Dean of Business School and was promoted as a vice-principal in January 2016. Mr. Liu has over 16 years of experience in education. Mr. Liu graduated from Yantai Education College* (煙台師範學院) (now known as Ludong University) in Shandong, PRC in June 2004 with a bachelor's degree in Physical Education. Mr. Liu was honoured as the Pioneer Communist Party Member of Higher Education in Science of Shandong Province* (山東高校科教與魯先鋒共產黨員) by Communist Party Shandong Provincial Higher Education Work Committee* (中共山東省委高校工委) in June 2012. Mr. Liu obtained the teaching qualification for higher education* (高等學校教師資格) granted by the Education Authority in June 2008.

Mr. Liang Yubing (梁玉冰), aged 39, is a vice-principal and the head of human resources department of the Target College since he joined the Target College in June 2010 and is responsible for the overall management and human resources management of the Target College. He is also a supervisor of the Target College. Mr. Liang has over 11 years of experience in education. Mr. Liang graduated from Shandong Economic University (now known as Shandong University of Finance and Economics) in Shandong, PRC in July 2006 with a bachelor's degree in Economics and graduated from China West Normal University in Sichuan, PRC in June 2010 with a master's degree in Regional Economics. Mr. Liang obtained the qualification of Economist (Finance)* (經濟師(金融)) granted by the Human Resources and Social Security Department of Shandong Province in February 2012, the teaching qualification for higher education* (高等學校教師資格) granted by the Education Authority in July 2014 and the qualification of enterprise human resources manager (the second level)* (二級企業人力資源管理師) granted by the Occupational Skill Testing Authority of the Ministry of Human Resources and Social Security of the PRC in October 2014.

Mr. Zhang Jisong (張吉松), aged 47, is a vice-principal of the Target College since December 2016. Mr. Zhang is responsible for the overall management of the school-enterprise cooperation, logistics and Nanshan campus of the Target College. He joined Nanshan Vocational College* (南山職業專修學院), the predecessor of the Target College in July 1997 and has been conferred the title of associate professor in August 2016 by the Target College. Mr. Zhang has over 24 years of experience in education. Mr. Zhang completed his undergraduate study at Yanshan University in Hebei, PRC in July 1997 in Industrial Automation and graduated from Qingdao University in Shandong, PRC in June 2009 with a master's degree in Population, Resources and Environmental Economics.

Mr. Luo Zhenming (羅振明), aged 53, is a vice-principal and a supervisor of the Target College. He has been the school's vice-principal since he joined Nanshan Vocational College* (南山職業專修學院), the predecessor of the Target College in July 1996. Mr. Luo is responsible for human resources and integration of teaching and research. Mr. Luo has over 25 years of experience in education. Mr. Luo was honoured as the National Model Teacher* (全國模範教師) by Ministry of Education of Human Resources of the PRC in September 2004. Mr. Luo graduated from Yantai Education College* (煙台師範學院) (now known as Ludong University) in Shandong, PRC in July 1996 with a diploma study in Mathematics through correspondence learning.

Mr. Qiao Renjie (喬仁潔), aged 42, is a vice-principal and a director of the Target College since March 2016 and April 2022, respectively, and is responsible for ideological and political education and party affairs. Mr. Qiao joined the Target College in May 2008 as a division chief of the Academic Affairs Office and has over 13 years of experience in education. Mr. Qiao graduated from Qufu Normal University in Shandong, PRC with a bachelor's degree in Management of Public Affairs (Education) in July 2003 and with a master's degree in Andragogy in June 2008. Mr. Qiao obtained the teaching qualification for higher education* (高等學校教師資格) granted by the Education Authority in June 2009.

Dr. Chen Zhongquan (陳忠全), aged 61, is a vice-principal and the Dean of the Business School of the Target College and is responsible for managing the Business School of the Target College. Dr. Chen joined the Target College in May 2015 and has over six years of experience in education.

Dr. Chen graduated from Northeast Normal University in Jilin, PRC with a bachelor's degree in mathematics through correspondence learning in December 1985. Dr. Chen then obtained his doctoral degree in Management Science and Engineering from Northeastern University in Liaoning, PRC in May 2015. Dr. Chen has been conferred the title of Professor in Economics & Management in November 2008 by the Department of Personnel of Liaoning Province* (遼寧省人事廳).

Dr. Xu Huizhong (徐惠忠), aged 60, is a vice-principal, Dean of the School of Engineering and a director of the Target College since April 2020, February 2021 and March 2021, respectively. Dr. Xu is responsible for the overall management of the Target College as well as the School of Engineering. Dr. Xu joined the Target College in April 2020 and has over six years of experience in education. Prior to joining the Target College, Dr. Xu had served as a professor and the dean of the Faculty of Environmental and Material Engineering in Yantai University in Shandong, PRC.

Dr. Xu graduated from Hefei University of Technology in Anhui, PRC with a bachelor's degree in Mineral Prospecting and Exploration in July 1983 and with a master's degree in Science in July 1986. Dr. Xu then obtained his doctoral degree in Materials Science from Harbin Institute of Technology in Heilongjiang, PRC in April 2011. Dr. Xu obtained the teaching qualification for higher education granted by the State Education Commission of the PRC* (中華人民共和國國家教育委員會高級學校教師資格證書) in June 1996 and has been conferred the title of Professor in Construction Materials in November 2000 by the Advanced Examination Committee of Higher Education Institution Teachers of Shandong* (山東省高等學校教師職務高級評審委員會).

Save as disclosed above, none of the above core management team members has held directorship positions in any public companies in the past three years and has had no interest in the shares of the Company within the meaning of Part XV of SFO.

Save as disclosed above, none of the above core management team members is connected with any other directors, senior management or substantial or controlling shareholders of the Target College.

As at the Latest Practicable Date, none of the above core management team members has any interest in the shares of the Target College within the meaning of Part XV of the SFO.

Save for disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51(2) or Paragraph 41(3) of Appendix 1A to the Listing Rules.

Among the core management team members, Mr. Luo Zhenming and Mr. Qiao Renjie will be appointed to the Board after the Acquisition. There is no commissions, discounts, brokerage or other special terms granted to them within the two years immediately preceding the issue of this circular in connection with any issue of sale of any capital of any member of the Group. There is no director(s) or proposed director(s) or expert who received any such payment or benefit.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET COLLEGE

Set out below is the management discussion and analysis of the Target College for the Track Record Period. The financial information has been prepared in accordance with the accounting policies which conform with IFRS and interpretations promulgated by the International Accounting Standards Board. You should read the Accountants' Report on the Target College included as Appendix I to this circular in its entirety and should not merely rely on the information contained in this section.

RESULTS OF OPERATIONS

The following table sets forth the statements of profit or loss and other comprehensive income of the Target College for the years/periods indicated:

	FY2019	FY2020	FY2021	3M2021	3M2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	301,120	324,535	356,497	79,839	90,654
Cost of services	(170,938)	(181,758)	(226,514)	(49,678)	(57,624)
Gross profit	130,182	142,777	129,983	30,161	33,030
Other income	17,803	12,988	18,975	4,912	5,550
Other gain, net	78	8,181	1,957	149	122
Selling and distribution expenses	(16,152)	(19,598)	(20,622)	(773)	(476)
Administrative expenses	(21,816)	(23,859)	(22,924)	(5,770)	(6,317)
Finance costs	(2,887)	(12,612)	(5,340)	(2,762)	(429)
Profit before tax	107,208	107,877	102,029	25,917	31,480
Income tax expense	—	—	—	—	—
Profit and the total comprehensive income for the year/period	107,208	107,877	102,029	25,917	31,480

MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, the Target College derived revenue primarily from (i) tuition fees; (ii) boarding fees; and (iii) other education service fees, and all of its revenue was generated in the PRC. The Target College generated total revenue of approximately RMB301.1 million, RMB324.5 million, RMB356.5 million and RMB90.7 million for FY2019 to FY2021 and 3M2022, respectively.

The table below sets forth a breakdown of revenue of the Target College for the years/periods indicated:

	FY2019		FY2020		FY2021		3M2021		3M2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Tuition fees	260,521	86.5	285,414	87.9	307,257	86.2	71,726	89.8	82,304	90.8
Boarding fees	24,877	8.3	16,862	5.2	27,775	7.8	6,675	8.4	7,458	8.2
Other education service fees	15,722	5.2	22,259	6.9	21,465	6.0	1,438	1.8	892	1.0
Total	301,120	100.0	324,535	100.0	356,497	100.0	79,839	100.0	90,654	100.0

Tuition fees and boarding fees mainly represent income received from the provision of education and boarding services to the students of the Target College, which was recognised over time of services rendered. Tuition fees and boarding fees are generally paid in advance prior to the beginning of each school year.

Other education service fees mainly represent income received from the provision of other education services including external staff training services provided to corporations, which was recognised over the time of services rendered.

For the Track Record Period, the Target College generated tuition fees of approximately RMB260.5 million, RMB285.4 million, RMB307.3 million and RMB82.3 million, respectively. The increases in tuition fees from FY2019 to FY2021 and from 3M2021 to 3M2022 were mainly due to (i) an increase in the total number of student enrollments; and (ii) an increase in the tuition fee rates, in part attributable to the fact that the Target College raised tuition fees for certain undergraduate and junior college diploma programmes. The total number of student enrolments has increased from 22,778 students for the school year of 2018/2019, to 25,379 students for the school year of 2019/2020, to 25,596 students for the school year of 2020/2021, and to 29,047 students for the school year of 2021/2022 (up to 31 May 2022).

For the Track Record Period, the Target College generated boarding fees of approximately RMB24.9 million, RMB16.9 million, RMB27.8 million and RMB7.5 million, respectively. The fluctuation of revenue generated from boarding fees during the Track Record Period was generally in line with the number of student enrollments, save for FY2020 where there was a significant decrease in boarding fees due to the outbreak of COVID-19 pandemic which caused a temporary closure of the student dormitories of the Target College, resulting in a refund of boarding fees.

For the Track Record Period, the Target College generated other education service fees of approximately RMB15.7 million, RMB22.3 million, RMB21.5 million and RMB0.9 million, respectively. The increase in other education service fees from FY2019 to FY2020 was primarily attributable to an increase in the number of external staff training courses offered. The number of external staff training courses offered increased from 67 in FY2019, and to 103 in FY2020. The other education service fees decreased from approximately RMB22.3 million for FY2020 to approximately RMB21.5 million for FY2021, primarily due to a decrease in average training fee per external staff training course offered in FY2021. As compared to 3M2021, the decrease in other education service fees by approximately RMB0.5 million to approximately RMB0.9 million in 3M2022 was primarily attributable to the decrease in provision of external staff training courses by the Target College in light of the social distancing measures implemented by the local government for the prevention of outbreak of COVID-19 during 3M2022.

Cost of Services

Our cost of services primarily consisted of, among others, (i) salaries and benefits; (ii) depreciation; (iii) utility expenses; and (iv) maintenance and repair expense.

For the Track Record Period, the cost of services of the Target College was approximately RMB170.9 million, RMB181.8 million, RMB226.5 million and RMB57.6 million, respectively.

The following table sets forth the components of the costs of services of the Target College for the years/periods indicated:

	FY2019		FY2020		FY2021		3M2021		3M2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Salaries and benefits(1)	94,692	55.4	109,339	60.2	132,918	58.6	29,131	58.7	32,581	56.5
Depreciation(2)	26,385	15.4	28,206	15.5	33,622	14.8	9,364	18.9	9,493	16.5
Utility expense	15,674	9.2	12,200	6.7	16,448	7.3	6,458	13.0	12,114	21.0
Maintenance and repair expense(3)	11,597	6.8	12,010	6.6	12,186	5.4	1,791	3.6	789	1.4
Training cost(4)	6,930	4.1	5,495	3.0	11,926	5.3	165	0.3	318	0.6
Scholarship(5)	1,910	1.1	1,854	1.0	3,043	1.3	201	0.4	475	0.8
Building management fee(6)	1,395	0.8	2,482	1.4	2,177	1.0	358	0.7	298	0.5
Training fee(7)	2,369	1.4	3,971	2.2	2,476	1.1	457	0.9	325	0.6
Others(8)	9,986	5.8	6,201	3.4	11,718	5.2	1,753	3.5	1,231	2.1
Total	170,938	100.0	181,758	100.0	226,514	100.0	49,678	100.0	57,624	100.0

Notes:

(1) Salaries and benefits primarily represent the basic salaries, social security contributions, bonuses and benefits of teaching staff of the Target College.

(2) Depreciation largely relates to the depreciation of property and buildings, education equipment, furniture and other equipment and motor vehicles.

(3) Maintenance and repair expense primarily consists of maintenance and repair costs for campus facilities.

(4) Training cost mainly relates to cost incurred for providing other education service.

(5) Scholarship primarily represents funds provided to students of the Target College to support their education.

(6) Building management fee primarily consists of fees paid by the Target College paid in respect of services including property management, cleaning, greenery maintenance, and garbage disposal.

(7) Training fee mainly represents training expenses of teaching staff of the Target College.

(8) Others mainly consists of (i) travelling expense; (ii) material fee; (iii) office supply; and (iv) admission fee.

Sensitivity Analysis

The following table sets out a sensitivity analysis of: (i) the effect of the fluctuations of tuition fees during the Track Record Period, and (ii) the effect of the fluctuations of salaries and benefits paid to teaching staff of the Target College during the Track Record Period. Such sensitivity analysis is hypothetical in nature and for illustrative purposes only, which indicates the potential impact on profitability during the Track Record Period if the relevant variables increased or decreased to the extent illustrated, assuming that all other variables remain constant. To illustrate the potential effect on the financial performance of the Target College, the sensitivity analysis below shows the potential impact on the profit for the year of the Target College with a 5% and 10% increase or decrease in revenue from tuition fees and 5% and 10% increase or decrease in salaries and benefits paid to teaching staff based on the historical fluctuations in tuition fees and salaries and benefits in cost of services of the Target College for the years/period indicated.

	FY2019	**FY2020**	**FY2021**	**3M2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Changes in tuition fees				
(10)%	(26,052)	(28,541)	(30,726)	(8,230)
(5)%	(13,026)	(14,271)	(15,363)	(4,115)
5%	13,026	14,271	15,363	4,115
10%	26,052	28,541	30,726	8,230
Changes in salaries and benefits in cost of services				
(10)%	9,469	10,934	13,292	3,258
(5)%	4,735	5,467	6,646	1,629
5%	(4,735)	(5,467)	(6,646)	(1,629)
10%	(9,469)	(10,934)	(13,292)	(3,258)

Gross Profit and Gross Margin

Gross profit represents revenue less cost of services, and gross profit margin represents gross profit divided by revenue. For the Track Record Period, the gross profit of the Target College was approximately RMB130.2 million, RMB142.8 million, RMB130.0 million and RMB33.0 million, respectively, and the gross profit margin was approximately 43.2%, 44.0%, 36.5% and 36.4%, respectively.

Other Income

The table below sets forth a breakdown of other income of the Target College for the years/periods indicated:

	FY2019		FY2020		FY2021		3M2021		3M2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Bank interest income[(1)]	332	1.9	230	1.8	231	1.2	47	1.0	51	0.9
Rental income[(2)]	6,234	35.0	5,773	44.4	11,765	62.0	3,022	61.5	3,217	58.0
Sales of education materials[(3)]	5,443	30.6	3,481	26.8	4,494	23.7	1,299	26.4	1,799	32.4
Installation income[(4)]	2,517	14.1	—	—	—	—	—	—	—	—
Bathroom service income[(5)]	1,357	7.6	681	5.2	611	3.2	107	2.2	70	1.3
Sundry income[(6)]	1,920	10.8	2,823	21.8	1,874	9.9	437	8.9	413	7.4
Total	17,803	100.0	12,988	100.0	18,975	100.0	4,912	100.0	5,550	100.0

Notes:

(1) Bank interest income consists of interests earned on bank deposits of the Target College.

(2) Rental income primarily consists of rent the Target College collected from leasing of the premises and other facilities of the Target College, such as canteens, office buildings, training halls to third parties.

(3) Sale of education materials mainly relates to the sales of teaching materials to students of the Target College.

(4) Installation income principally relates to fees received from a telecommunication company for leasing of telecommunication equipment in the student dormitories of the Target College. Such arrangement ceased in FY2020, such that no installation income had been recognised in FY2020 and thereafter.

(5) Bathroom service income mainly represents fees collected from providing shower facilities to students in the Target College.

(6) Sundry income consists of, among others, (i) fees collected for the provision of public examinations; and (ii) revenue generated from operating canteens.

Other Losses/Gains, net

The table below sets forth a breakdown of the net other losses/gains of the Target College for the years/periods indicated:

	FY2019	FY2020	FY2021	3M2021	3M2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss) gain on disposal of property and equipment, net	(60)	(204)	66	120	107
Gain on disposal of right-of-use assets, net of related tax	—	7,949	—	—	—
Others	138	436	1,891	29	15
Total	78	8,181	1,957	149	122

Selling and distribution expenses

The table below sets forth a breakdown of selling and distribution expenses for the years/periods indicated:

	FY2019		FY2020		FY2021		3M2021		3M2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Advertising fee(1)	1,438	8.9	3,498	17.9	4,481	21.7	85	11.0	48	10.1
Staff cost(2)	13,159	81.5	14,844	75.7	14,673	71.2	478	61.8	260	54.6
Office supply(3)	1,069	6.6	809	4.1	1,038	5.0	100	12.9	66	13.9
Others(4)	486	3.0	447	2.3	430	2.1	110	14.3	102	21.4
Total	16,152	100.0	19,598	100.0	20,622	100.0	773	100.0	476	100.0

Notes:

(1) Advertising fee primarily relates to expenses arising from the general promotion of the Target College.

(2) Staff cost consists of staff salaries and benefits.

(3) Office supply mainly relates to costs expenses incurred in connection with the marketing activities.

(4) Others consists of, among others, (i) travelling expenses; (ii) repair and maintenance expenses; and (iii) entertainment fee.

Administrative expenses

The table below sets forth a breakdown of administrative expenses of the Target College for the years/periods indicated:

	FY2019		FY2020		FY2021		3M2021		3M2022	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Salaries and benefits(1)	16,316	74.8	18,852	79.0	16,612	72.5	4,807	83.3	3,993	63.2
Office supply(2)	1,105	5.1	693	2.9	804	3.4	292	5.1	99	1.6
Consulting fees(3)	—	—	210	0.9	770	3.4	—	—	—	—
Depreciation(4)	1,547	7.1	1,666	7.0	2,171	9.5	368	6.4	1,385	21.9
Travelling expense(5)	1,025	4.7	1,037	4.3	763	3.3	82	1.4	226	3.6
Others	1,823	8.3	1,401	5.9	1,804	7.9	221	3.8	614	9.7
	21,816	100.0	23,859	100.0	22,924	100.0	5,770	100.0	6,317	100.0

Notes:

(1) Salaries and benefits consist of salaries and benefits of administrative staff.

(2) Office supply mainly relates to office expenses incurred in connection with administrative activities.

(3) Consulting fees primarily relates to fees paid to external agents for staff recruitment and fees paid to third parties for programmes organised jointly with them.

(4) Depreciation mainly represents the depreciation of property and buildings, education equipment, furniture and other equipment and motor vehicles.

(5) Travelling expense mainly relates to travelling expenses incurred by staff of the Target College.

Finance cost

Finance cost primarily consists of interest on other borrowings used for the purpose of payment of salaries of teaching staff, maintenance and repair expenses and daily operation expenses and interest on lease liabilities. For the Track Record Period, finance cost amounted to approximately RMB2.9 million, RMB12.6 million, RMB5.3 million and RMB0.4 million, respectively.

Income tax expense

According to the Law for Promoting Private Education of the PRC and its implementation rules, 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 services are eligible to enjoy income tax exemption treatment if the sponsors of such schools do not require reasonable returns. Please refer to the section headed "Regulatory Overview Relating to the Target College — Legal regulations over tax in the PRC — Income tax" in this circular for details.

Total comprehensive income for the year/period

For the Track Record Period, the total comprehensive income for the year/period was approximately RMB107.2 million, RMB107.9 million, RMB102.0 million and RMB31.5 million, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

3M2022 as compared to 3M2021

Revenue

The revenue of the Target College increased by approximately RMB10.8 million or approximately 13.5%, from approximately RMB79.8 million for 3M2021 to approximately RMB90.7 million for 3M2022, which was primarily attributable to an increase in both tuition fees and boarding fees, partially offset by a decrease in other education service fees.

Revenue from tuition fees increased by approximately RMB10.6 million or approximately 14.7%, from approximately RMB71.7 million for 3M2021 to approximately RMB82.3 million for 3M2022, primarily as a result of an increase in the total number of student enrollments from 25,596 students for the school year of 2020/2021 to 29,047 students for the school year of 2021/2022 (up to 31 May 2022).

Boarding fees increased by approximately RMB0.8 million or approximately 11.7%, from approximately RMB6.7 million for 3M2021 to approximately RMB7.5 million for 3M2022, primarily as a result of an increase in the total number of student enrollments from 25,596 students for the school year of 2020/2021 to 29,047 students for the school year of 2021/2022 (up to 31 May 2022).

Revenue from other education service fees decreased by approximately RMB0.5 million or approximately 38.0%, from approximately RMB1.4 million for 3M2021 to approximately RMB0.9 million for 3M2022, primarily as a result of the decrease in provision of external staff training courses by the Target College in light of the social distancing measures implemented by the local government for the prevention of outbreak of COVID-19 during 3M2022.

Cost of services

Cost of services increased by approximately RMB7.9 million or approximately 16.0%, from approximately RMB49.7 million for 3M2021 to approximately RMB57.6 million for 3M2022. The increase was primarily due to (i) an increase in salaries and benefits of approximately RMB3.5 million, mainly due to an increase in the number of teaching staff from 1,342 for the school year of 2020/2021 to 1,500 for the school year of 2021/2022; and (ii) an increase in utility expense of approximately RMB5.7 million, primarily due to the increases in the prices of utilities such as water, electricity and steam, partially offset by a decrease in maintenance and repair expenses of approximately RMB1.0 million, primarily attributable to the completion of the renovation of the fire safety facilities in the school campus.

Gross profit and gross profit margin

Gross profit increased by approximately RMB2.9 million or approximately 9.5%, from approximately RMB30.2 million for 3M2021 to approximately RMB33.0 million for 3M2022, which was primarily due to the increase in revenue of the Target College as discussed above. Gross profit margin slightly decreased from approximately 37.8% for 3M2021 to approximately 36.4% for 3M2022, primarily attributable to the fact that the increase in revenue of the Target College was outweighed by the increase in its cost of services, such as salaries and benefits and utility expense.

Other income

Other income increased by approximately RMB0.6 million or approximately 13.0% from approximately RMB4.9 million for 3M2021 to approximately RMB5.6 million for 3M2022, primarily attributable to an increase in sales of education materials of approximately 38.5%, mainly due to an increase in the total number of student enrollments from 25,596 students for the school year of 2020/2021 to 29,047 students for the school year of 2021/2022 (up to 31 May 2022).

Other gain, net

Net other gain of the Target College remained relatively stable at approximately RMB0.1 million and RMB0.1 million for 3M2021 and 3M2022, respectively.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB0.3 million or approximately 38.4%, from approximately RMB0.8 million for 3M2021 to approximately RMB0.5 million for 3M2022, mainly attributable to (i) a decrease in staff cost of approximately RMB0.2 million; and (ii) a decrease in advertising fee of approximately RMB37,000, primarily due to a decrease in consumption of promotional materials.

Administrative expenses

Administrative expenses increased by approximately RMB0.5 million or approximately 9.5%, from approximately RMB5.8 million for 3M2021 to approximately RMB6.3 million for 3M2022, primarily due to an increase in depreciation of approximately RMB1.0 million, mainly as a result of an increase in the number of property and equipment that had become fully depreciated during 3M2022, partially offset by a decrease of salaries and benefits of approximately RMB0.8 million, primarily attributable to a decrease in the number of administrative staff in 3M2022.

Finance cost

Finance cost decreased by approximately RMB2.3 million, from approximately RMB2.8 million for 3M2021 to approximately RMB0.4 million for 3M2022, primarily attributable to the early settlement of other borrowings by the Target College during FY2021.

Income tax expense

No income tax expense was incurred for 3M2021 and 3M2022.

Profit for the period

As a result of the foregoing, the profit of the Target College increased by approximately RMB5.6 million or approximately 21.5%, from approximately RMB25.9 million for 3M2021 to approximately RMB31.5 million for 3M2022.

FY2021 as compared to FY2020

Revenue

The revenue of the Target College increased by approximately RMB32.0 million or approximately 9.8%, from approximately RMB324.5 million for FY2020 to approximately RMB356.5 million for FY2021, which was primarily driven by an increase in tuition fees and boarding fees, partially offset by a decrease in other education service fees.

Revenue from tuition fees increased by approximately RMB21.8 million or approximately 7.7%, from approximately RMB285.4 million for FY2020 to approximately RMB307.3 million for FY2021, primarily as a result of (i) an increase in the total number of student enrollments from 25,379 students for the school year of 2019/2020 to 29,047 students for the school year of 2021/2022 (up to 31 May 2022); (ii) an increase in tuition fee rates for undergraduate programmes from the range of RMB11,000 to RMB20,800 for the school year of 2019/2020 to the range of RMB12,800 to RMB20,800, for the school year of 2021/2022.

Boarding fees increased by approximately RMB10.9 million, or approximately 64.7%, from approximately RMB16.9 million for FY2020 to approximately RMB27.8 million for FY2021, primarily as a result of (i) an increase in the total number of student enrollments from the school year of 2019/2020 to the school year of 2021/2022 (up to 31 May 2022); and (ii) the full resumption of boarding services for the school year of 2020/2021 as compared to the temporary closure of the campus due to COVID-19 during the school year of 2019/2020, which led to an increase in boarding fees for FY2021 as compared to FY2020.

Revenue from other education service fees slightly decreased by approximately RMB0.8 million or approximately 3.6%, from approximately RMB22.3 million for FY2020 to approximately RMB21.5 million for FY2021, primarily due to a decrease in average training fee per external staff training course offered in FY2021.

Cost of services

Cost of services increased by approximately RMB44.8 million or approximately 24.6%, from approximately RMB181.8 million for FY2020 to approximately RMB226.5 million for FY2021. The increase was primarily due to (i) an increase in salaries and benefits of approximately RMB23.6 million, mainly due to an increase in the number of teaching staff from 1,340 for the school year of 2019/2020 to 1,500 for the school year of 2021/2022;

(ii) an increase in training cost of approximately 6.4 million, which was mainly attributable to the increase in the cost of providing aviation related training courses; (iii) an increase in depreciation of approximately RMB5.4 million, mainly as a result of the purchase of property and buildings during FY2021; (iv) an increase in utility expenses of approximately RMB4.2 million, primarily reflecting the fact that the school campus of the Target College was temporary closed during FY2020 as a result of outbreak of COVID-19 pandemic.

Gross profit and gross profit margin

Gross profit decreased by approximately RMB12.8 million or approximately 9.0%, from approximately RMB142.8 million for FY2020 to approximately RMB130.0 million for FY2021. Gross profit margin decreased from approximately 44.0% for FY2020 to approximately 36.5% for FY2021. Such decreases were primarily due to the increase in cost of services as discussed above, while at the same time there was only a relatively small increase in revenue of the Target College.

Other income

Other income increased by approximately RMB6.0 million or approximately 46.1% from approximately RMB13.0 million for FY2020 to approximately RMB19.0 million for FY2021, primarily because of (i) an increase in rental income of approximately RMB6.0 million, mainly due to the lease arrangements newly entered into at the end of 2020 and the granting of a rent-free period of 3 months to the tenants of the Target College in 2020 as a result of outbreak of COVID-19 pandemic, whereas no such arrangement was made during FY2021; and (ii) an increase in the sales of education materials of approximately RMB1.0 million, mainly due to (i) an increase in the total number of student enrollments from the school year of 2019/2020 to the school year of 2021/2022 (up to 31 May 2022); and (ii) the fact that the Target College had adopted online teaching during the temporary closure of campus during the school year of 2019/2020 and it was not mandatory for students to purchase education materials for online learning.

Other gain, net

Net other gain decreased by approximately RMB6.2 million or approximately 76.1%, from approximately RMB8.2 million for FY2020 to approximately RMB2.0 million for FY2021, primarily due to the gain of approximately RMB8.0 million recognised from the disposal of right-of-use assets (being land use rights) to a third party research institute in FY2020, where no such gain was recognised during FY2021.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB1.0 million or approximately 5.2%, from approximately RMB19.6 million for FY2020 to approximately RMB20.6 million for FY2021, mainly attributable to (i) an increase in advertising fee of approximately RMB1.0 million, primarily due to an increase in promotional activities of the Target College through both online and traditional paper media; and (ii) an increase in office supply of approximately RMB0.2 million, primarily due to an increase in consumption, including increased subscriptions and purchases of journals and materials.

Administrative expenses

Administrative expenses decreased by approximately RMB0.9 million or approximately 3.9%, from approximately RMB23.9 million for FY2020 to approximately RMB22.9 million for FY2021, primarily due to a decrease in salaries and benefits of approximately RMB2.2 million, mainly attributable to the decrease in the number of administrative staff in FY2021, partially offset by (i) an increase in consulting fees of approximately RMB0.6 million, primarily representing consulting and service fees paid to external agents for security assessment and the campus servers, whereas no such agents were engaged during FY2020; and (ii) an increase in depreciation of approximately RMB0.5 million, mainly as a result of the purchase of property and buildings during FY2021.

Finance cost

Finance cost decreased by approximately RMB7.3 million or approximately 57.7%, from approximately RMB12.6 million for FY2020 to approximately RMB5.3 million for FY2021, primarily attributable to the early settlement of the outstanding balances of other borrowings by the Target College during FY2021.

Income tax expense

No income tax expense was incurred for FY2020 and FY2021.

Profit for the year

As a result of the foregoing, the profit of the Target College decreased by approximately RMB5.8 million or approximately 5.4%, from approximately RMB107.9 million for FY2020 to approximately RMB102.0 million for FY2021.

FY2020 as compared to FY2019

Revenue

The revenue of the Target College increased by approximately RMB23.4 million or approximately 7.8%, from approximately RMB301.1 million for FY2019 to approximately RMB324.5 million for FY2020, which was primarily driven by an increase in revenue from tuition fees and other education service fees, partially offset by a decrease in boarding fees.

Revenue from tuition fees increased by approximately RMB24.9 million or approximately 9.6%, from approximately RMB260.5 million for FY2019 to approximately RMB285.4 million for FY2020, primarily as a result of (i) an increase in the total number of student enrollments from 20,845 students for the school year of 2018/2019 to 25,596 students for the school year of 2020/2021; (ii) an increase in tuition fee rates from the range of RMB8,200 to RMB9,300 for junior college diploma programmes and the range of RMB11,000 to RMB19,200 for undergraduate programmes for the school year of 2018/2019 to the range of RMB8,200 to RMB13,300 and RMB12,800 to RMB20,800 respectively, for the school year of 2020/2021.

Revenue from other education service fees increased by approximately RMB6.5 million or approximately 41.6%, from approximately RMB15.7 million for FY2019 to approximately RMB22.3 million for FY2020, primarily due to the increase in demand for external staff training services by one particular customer, leading to an increase in revenue attributable to that customer from less than RMB0.1 million for FY2019 to approximately RMB8.8 million for FY2020.

Boarding fees decreased by approximately RMB8.0 million, or approximately 32.2%, from approximately RMB24.9 million for FY2019 to approximately RMB16.9 million for FY2020, primarily because the Target College refunded the boarding fees to students due to the temporary closure of the student dormitories of the Target College during the school year of 2019/2020, as a result of the outbreak of the COVID-19 pandemic. In this connection, as the Target College had adopted online teaching as a mitigant of the COVID-19 pandemic, such that the tuition fees received by the Target College for FY2020 was not materially adversely affected.

Cost of services

Cost of services increased by approximately RMB10.8 million or approximately 6.3%, from approximately RMB170.9 million for FY2019 to approximately RMB181.8 million for FY2020. The increase was primarily due to (i) an increase in salaries and benefits by RMB14.6 million, primarily due to the one-off pay raise by the Target College in November 2019, as well as the increase in salaries due to the promotion of teaching staff, notwithstanding the Target College enjoyed governmental subsidy on social security payment in FY2020; (ii) an increase in training fee of approximately RMB1.6 million, primarily attributable to an increase in fees paid to other educational institutions for organising joint training programmes; and (iii) an increase in building management fee of approximately RMB1.1 million, mainly as a result of renovation costs incurred for greening of the Target College and expenses incurred for purchasing personal protective equipment in response to the outbreak of the COVID-19 pandemic, partially offset by (i) a decrease in utility expense by RMB3.5 million, primarily attributable to the temporary closure of the campus of the Target College (including student dormitories), during the school year of 2019/2020 as a result of the outbreak of the COVID-19 pandemic; and (ii) a decrease in other costs of approximately RMB3.0 million, in part due to the reduction of travelling fee and usage of daily-consumables for FY2020 due to the temporary closure of the campus of the Target College during the school year of 2019/2020 as a result of the outbreak of the COVID-19 pandemic.

Gross profit and gross profit margin

Gross profit increased by approximately RMB12.6 million or approximately 9.7%, from approximately RMB130.2 million for FY2019 to approximately RMB142.8 million for FY2020. Gross profit margin increased from approximately 43.2% for FY2019 to approximately 44.0% for FY2020. Such increases were primarily due to the increases in student enrollments and average tuition fee rates as discussed above, while at the same time increase in cost of services was in a smaller extent in part due to the impact of the COVID-19 pandemic as discussed above.

Other income

Other income decreased by approximately RMB4.8 million or approximately 27.0% from approximately RMB17.8 million for FY2019 to approximately RMB13.0 million for FY2020, primarily because of (i) a decrease in sales of education materials of approximately RMB2.0 million, mainly attributable to the temporary closure of the campus of the Target College during the school year of 2019/2020 as the Target College had adopted online teaching and as confirmed by the Target College, it was not mandatory for students to purchase education materials for online learning; (ii) a decrease in installation income of approximately RMB2.5 million, as the lease arrangement of telecommunication equipment in the student dormitories of the Target College ceased in FY2020, such that no installation income has been recognised since FY2020.

Other gain, net

Net other gain increased by approximately RMB8.1 million, from approximately RMB0.1 million for FY2019 to approximately RMB8.2 million for FY2020, primarily due to the gain of approximately RMB8.0 million recognised from the disposal of right-of-use assets (being land use rights) to a third party research institute in FY2020.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB3.4 million or approximately 21.3%, from approximately RMB16.2 million for FY2019 to approximately RMB19.6 million for FY2020, primarily due to (i) an increase in advertising fee of approximately RMB2.1 million, primarily because of the increase in online advertising activities in FY2020; and (ii) an increase in staff cost of approximately RMB1.7 million.

Administrative expenses

Administrative expenses increased by approximately RMB2.0 million or approximately 9.4%, from approximately RMB21.8 million for FY2019 to approximately RMB23.9 million for FY2020, primarily due to (i) an increase in salaries and benefits paid to administrative personnel of approximately RMB2.5 million, primarily attributable to an increase in salaries in part due to the promotion of administrative personnel; and (ii) an increase in depreciation of approximately RMB0.1 million, mainly as a result of the purchase of equipment and motor vehicles in FY2020 and the completion of renovation of the synthetic tracks in the sports ground in the Donghai Campus of the Target College in FY2020, which led to the reclassification of its accumulated renovation cost from construction in progress to property, plant and equipment, for which depreciation was charged, partially offset by a decrease in others of approximately RMB0.8 million, primarily attributable to the decrease in, among others, (a) academic exchange and training expenses, and (b) payment of insurance premium payable.

Finance cost

Finance cost increased by approximately RMB9.7 million or approximately 336.9%, from approximately RMB2.9 million for FY2019 to approximately RMB12.6 million for FY2020, primarily attributable to the fact that the Target College settled all its liabilities under the existing finance lease agreement in early 2019 and did not make any interest payments thereafter until the re-entering of a new finance lease agreement in late 2019, notwithstanding there was a decrease in the total balance of other borrowings from approximately RMB98.5 million as at 31 December 2019 to approximately RMB84.0 million as at 31 December 2020.

Income tax expense

No income tax expense was incurred for FY2019 and FY2020.

Profit for the year

As a result of the foregoing, the profit of the Target College increased by approximately RMB0.7 million or approximately 0.6%, from approximately RMB107.2 million for FY2019 to approximately RMB107.9 million for FY2020.

LIQUIDITY AND CAPITAL RESOURCES

The Target College's primary uses of cash are mainly to finance its operations. During the Track Record Period, the Target College funded its cash requirements principally from cash generated from its operations and external borrowings, including notes and other borrowings. The Target College had cash and cash equivalents of approximately RMB3.5 million, RMB0.5 million, RMB45.9 million and RMB2.6 million as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively. The Target College generally deposits its excess cash with major financial institutions which the management of the Target College believes are of high-credit-quality without significant credit risk. In this connection, during the Track Record Period, the Target College had deposited cash in its accounts held with Nanshan Group Finance Co. Ltd.* (南山集團財務有限公司) ("**Nanshan Finance**"), a financial institution registered under the China Banking and Insurance Regulatory Commission, and a subsidiary of the Nanshan Group. As at 31 December 2019, 2020 and 2021 and 31 March 2022, the Target College's cash placed at Nanshan Finance amounted to approximately RMB3.0 million, RMB0.1 million, RMB45.5 million and RMB2.2 million, respectively. Prior to Completion, the Target College will transfer such balances to its accounts held with banks that are independent third parties.

The Directors are of the view that, taking into account the cash generated from the operations of the Target College, and the balance of cash and cash equivalents and external borrowings, the Target College has sufficient working capital for present requirements for at least next 12 months from the date of this circular.

Cash flows

The following table sets forth a summary of cash flows of the Target College for the years/periods indicated:

	FY2019	**FY2020**	**FY2021**	**3M2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash from (used in) operating activities	159,193	165,390	187,059	(71,887)
Net cash (used in) generated from investing activities	(171,591)	(141,273)	(2,165)	28,593
Net cash from (used in) financing activities	6,483	(27,128)	(139,484)	—
Net (decrease) increase in cash and cash equivalents	(5,915)	(3,011)	45,410	(43,294)
Cash and cash equivalents at the beginning of the year/period	9,439	3,524	513	45,923
Cash and cash equivalents at the end of the year/period	3,524	513	45,923	2,629

Cash flows from operating activities

Cash inflows from operating activities are derived from tuition fees, boarding fees and other education service fees. In this connection, tuition fees and boarding fees are generally paid in advance prior to the beginning of each school year and initially recorded under contract liabilities. They are then recognised proportionately over time of the services rendered.

For 3M2022, net cash used in operating activities was approximately RMB71.9 million, primarily reflecting (i) profit before tax of approximately RMB31.5 million; (ii) positive adjustments before movements in working capital of approximately RMB11.2 million, primarily attributable to (a) non-cash depreciation of property and equipment and right-of-use assets of approximately RMB10.9 million; and (b) interest on other borrowings of approximately RMB0.4 million; and (iii) negative adjustment in working capital of approximately RMB114.5 million, primarily attributable to (a) a decrease in trade and other payables of approximately RMB40.6 million; and (b) a decrease in contract liabilities of approximately RMB85.0 million, partially offset by a decrease in amounts due from fellow subsidiaries of approximately RMB2.2 million.

For FY2021, net cash from operating activities was approximately RMB187.1 million, primarily reflecting (i) profit before tax of approximately RMB102.0 million; (ii) positive adjustments before movements in working capital of approximately RMB40.9 million, primarily attributable to (a) non-cash depreciation of property and equipment and right-of-use assets of approximately RMB35.9 million; and (b) interest on other borrowings of approximately RMB5.3 million; and (iii) positive adjustments in working capital of approximately RMB44.1 million, primarily due to (a) an increase in contract liabilities by approximately RMB36.2 million; (b) an increase in trade and other payables by approximately RMB6.5 million; and (c) an increase in notes payable by approximately RMB1.8 million, partially offset by an increase in trade and other receivables by approximately RMB0.9 million.

For FY2020, net cash from operating activities was approximately RMB165.4 million, primarily reflecting (i) profit before tax of approximately RMB107.9 million; (ii) positive adjustments before movements in working capital of approximately RMB34.6 million, primarily attributable to (a) non-cash depreciation of property and equipment and right-of-use assets of approximately RMB30.0 million; and (b) interest on other borrowings of approximately RMB12.6 million; and (iii) positive adjustments in working capital of approximately RMB22.9 million, primarily due to (a) an increase in trade and other payables of approximately RMB26.2 million; and (b) a decrease in trade and other receivables of approximately RMB13.1 million, partially offset by (a) a decrease in contract liabilities of approximately RMB6.4 million; and (b) a decrease in amounts due to fellow subsidiaries of approximately RMB6.7 million.

For FY2019, net cash from operating activities was approximately RMB159.2 million, primarily reflecting (i) profit before tax of approximately RMB107.2 million; (ii) positive adjustments before movements in working capital of approximately RMB30.7 million, primarily attributable to (a) non-cash depreciation of property and equipment and right-of-use assets of approximately RMB28.0 million; and (b) interest on other borrowings of approximately RMB2.9 million; and (iii) positive adjustments in working capital of approximately RMB21.3 million, primarily due to (a) an increase in contract liabilities of approximately RMB22.6 million; and (b) an increase in amounts due to fellow subsidiaries of approximately RMB5.2 million, partially offset by (a) an increase in trade and other receivables of approximately RMB5.2 million; and (b) a decrease in trade and other payables of approximately RMB4.4 million.

Cash flows used in investing activities

Cash flows used in investing activities primarily reflect (i) purchase of property and equipment and right-of-use assets; (ii) advances to and repayments from a shareholder; and (iii) placement of and withdrawal from restricted bank balances.

For 3M2022, net cash generated from investing activities was approximately RMB28.6 million, which was primarily attributable to repayment from a shareholder of approximately RMB47.8 million, partially offset by (i) advance to a shareholder of approximately RMB10.5 million, and (ii) purchase of property and equipment of approximately RMB7.6 million.

For FY2021, net cash used in investing activities was approximately RMB2.2 million, which was primarily due to (i) advance to a shareholder of approximately RMB771.9 million; (ii) purchase of property and equipment of approximately RMB211.8 million; and (iii) purchase of right-of-use assets of approximately RMB17.5 million, partially offset by the repayment from a shareholder of approximately RMB996.3 million.

For FY2020, net cash used in investing activities was approximately RMB141.3 million, which was primarily due to (i) advance to a shareholder of approximately RMB567.0 million; (ii) purchase of property and equipment of approximately RMB59.5 million; and (iii) deposits paid for acquisition of property and equipment of approximately RMB60.8 million, partially offset by repayment from a shareholder of approximately RMB534.6 million.

For FY2019, net cash used in investing activities was approximately RMB171.6 million, which was primarily due to (i) advance to a shareholder of approximately RMB513.6 million; and (ii) purchase of property and equipment of approximately RMB51.2 million, partially offset by repayment from a shareholder of approximately RMB395.6 million.

Cash flows from/used in financing activities

Cash flows from/used in financing activities primarily reflect (i) additions and repayments of other borrowings; (ii) advances from and repayments to fellow subsidiaries; and (iii) advance from and repayment to a shareholder.

For 3M2022, the Target College had nil net cash generated from/used in financing activities.

For FY2021, net cash used in financing activities was approximately RMB139.5 million, which was primarily due to (i) repayments of other borrowings of approximately RMB84.0 million; and (ii) repayments to fellow subsidiaries of approximately RMB50.3 million.

For FY2020, net cash used in financing activities was approximately RMB27.1 million, which was primarily due to (i) repayments to fellow subsidiaries of approximately RMB106.6 million; (ii) repayments of other borrowings of approximately RMB14.5 million; and (iii) interest paid for other borrowings of approximately RMB12.6 million, partially offset by advances from fellow subsidiaries of approximately RMB106.6 million.

For FY2019, net cash generated from financing activities was approximately RMB6.5 million, which was primarily due to (i) advances from fellow subsidiaries of approximately RMB137.7 million; and (ii) additions of other borrowings of approximately RMB98.0 million, partially offset by (i) repayments to fellow subsidiaries of approximately RMB139.5 million; and (ii) repayments of other borrowings of approximately RMB86.9 million.

NET CURRENT ASSETS AND LIABILITIES

The following table sets forth the breakdown of current assets and current liabilities of the Target College as at the dates indicated:

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current Assets				
Inventories	1,003	3,166	2,340	2,456
Trade and other receivables	16,094	2,965	4,823	3,369
Amount due from a shareholder	295,640	332,449	107,770	69,787
Amount due from fellow subsidiaries	3	52,151	2,191	11
Bank balances and cash	10,861	5,693	48,781	5,435
Total current assets	323,601	396,424	165,905	81,058
Current Liabilities				
Trade and other payables	180,327	211,538	141,631	92,218
Notes payables	7,337	7,920	9,688	11,296
Lease liabilities	—	—	8,058	8,115
Contract liabilities	205,263	198,905	235,076	150,057
Amount due to fellow subsidiaries	56,966	50,282	5,361	14,034
Other borrowings	14,485	17,061	—	—
Total current liabilities	464,378	485,706	399,814	275,720
Net current liabilities	(140,777)	(89,282)	(233,909)	(194,662)

As at 31 March 2022, the Target College had net current liabilities of approximately RMB194.7 million, as compared to the net current liabilities of approximately RMB233.9 million as at 31 December 2021. Such decrease in net current liabilities of approximately RMB39.2 million was primarily attributable to (i) a decrease in contract liabilities of approximately RMB85.0 million; and (ii) a decrease in trade and other payables of approximately RMB49.4 million, partially offset by (i) a decrease in bank balances and cash of approximately RMB43.3 million; (ii) a decrease in amount due from a shareholder of approximately RMB38.0 million; and (iii) an increase in amounts due to fellow subsidiaries of approximately RMB8.7 million.

As at 31 December 2021, the Target College had net current liabilities of approximately RMB233.9 million, as compared to net current liabilities of approximately RMB89.3 million as at 31 December 2020. Such increase in net current liabilities of approximately RMB144.6 million was primarily attributable to (i) a decrease in amount due from a shareholder of approximately RMB224.7 million; (ii) an increase in contract liabilities of approximately RMB36.2 million; and (iii) a decrease in amounts due from fellow subsidiaries of approximately RMB50.0 million, partially offset by (i) a decrease in trade and other payables of approximately RMB69.9 million; (ii) an increase in bank balances and cash of approximately RMB43.1 million; (iii) a decrease in amounts due to fellow subsidiaries of approximately RMB44.9 million; and (iv) a decrease in other borrowings of approximately RMB17.1 million.

As at 31 December 2020, the Target College had net current liabilities of approximately RMB89.3 million, as compared to net current liabilities of approximately RMB140.8 million as at 31 December 2019. Such decrease in net current liabilities of approximately RMB51.5 million was primarily attributable to (i) an increase in amounts due from fellow subsidiaries of approximately RMB52.1 million; (ii) an increase in amount due from a shareholder of approximately RMB36.8 million; and (iii) a decrease in amounts due to fellow subsidiaries of approximately RMB6.7 million, partially offset by (i) an increase in trade and other payables of approximately RMB31.2 million; and (ii) a decrease in trade and other receivables of approximately RMB13.1 million.

DESCRIPTION OF CERTAIN ITEMS FROM THE STATEMENTS OF FINANCIAL POSITION

Current trade and other receivables

Current trade and other receivables primarily consist of (i) trade receivables; (ii) prepaid expenses; (iii) advance to employees; and (iv) other receivables. Trade receivables mainly represents tuition and boarding fees receivable from students of the Target College and other education service fees receivable from customers. Prepaid expenses mainly represent prepayments for operating expenses. Advance to employees mainly represent the amount the Target College advanced to its staff for activities in connection with student admissions. Other receivables mainly represent the net balance payable by a third party in respect of the installation income of the Target College.

The table below sets forth the breakdown of current trade and other receivables as at the dates indicated:

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	1,900	216	4,610	1,691
Prepaid expenses	31	2,439	151	1,234
Advance to employees	—	310	—	—
Other receivables	14,163	—	62	444
	16,094	2,965	4,823	3,369

Current trade and other receivables amounted to approximately RMB16.1 million, RMB3.0 million, RMB4.8 million and RMB3.4 million as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively.

The decrease in current trade and other receivables of approximately RMB13.1 million or approximately 81.6% from approximately RMB16.1 million as at 31 December 2019 to approximately 3.0 million as at 31 December 2020 was primarily attributable to (i) a decrease in other receivables of RMB14.1 million, mainly due to the fact that a shareholder has undertaken other receivables of approximately RMB10.7 million from the Target College; (ii) a decrease in trade receivables of approximately RMB1.7 million, primarily due to the settlement of other education service fees by customers.

The increase in current trade and other receivables of approximately RMB1.9 million or approximately 62.7% from approximately RMB3.0 million as at 31 December 2020 to approximately RMB4.8 million as at 31 December 2021 was primarily attributable to an increase in trade receivables of approximately RMB4.4 million, mainly attributable to the vocational training service fees and the state-subsidised tuition fees for veterans earned by the Target College during FY2021, which the corresponding the receivables had yet to be settled as at 31 December 2021.

The decrease in current trade and other receivables of approximately RMB1.5 million or approximately 30.1% from approximately RMB4.8 million as at 31 December 2021 to approximately RMB3.4 million as at 31 March 2022 was primarily attributable to a decrease in current trade receivables of approximately RMB2.9 million, mainly due to the decrease in the provision of external staff training services by the Target College during 3M2022 as discussed above, partially offset by an increase in prepaid expenses of approximately RMB1.1 million, mainly due to increases in prepayments for purchases of supplies and inter-school cooperation.

The following table sets forth the ageing analysis of the trade receivables as at the dates indicated:

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	1,900	216	4,610	1,691

The Target College applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Target College considers the credit risk and days past due of the trade receivables to measure the expected credit losses. Trade receivables as at 31 December 2019, 2020 and 2021 and 31 March 2022 were not past due and had no recent history of default. The expected credit losses were assessed to be minimal as at the end of the respective reporting period.

Trade and other payables

Trade and other payables primarily consist of (i) trade payables; (ii) deposit received; (iii) government grants; (iv) miscellaneous advances received from students; (v) other payables and accruals; (vi) other tax payables; (vii) payables for purchase of property and equipment; (viii) payables for salary; (ix) payables for scholarship; (x) payables for social insurance and housing fund; (xi) payables to employees; and (xii) rental income received in advance. Deposit received primarily represents deposits received in connection with procurement tenders and the issuing of library cards to students. Government grants primarily relates to grants received from government for the purpose of compensating the expenses arising from research activities carried out by teaching staff and students of the Target College, which will then be distributed to the relevant personnel upon completion of the corresponding research activities. Miscellaneous advances received from students mainly represents expenses payable for textbooks and insurance upon collection of funds from students, which will then be paid by the Target College on behalf of the students. Payables to employees primarily relates to research funds, subsidies, bonuses and disbursements payable to staff. Other payables and accruals comprise payables in connection with, among others, daily expenses, maintenance and repair expenses and training fees. Payables for scholarship primarily represents subsidies received by the Target College for distribution to students as scholarship. Rental income received in advance mainly relates to advance rental payments from tenants in accordance with the terms of the tenancy agreements entered into.

The table below sets forth the breakdown of trade and other payables as at the dates indicated:

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	1,090	1,090	1,680	7,892
Deposit received	509	520	425	447
Government grants	28,259	31,017	32,896	32,031
Miscellaneous advances received from students	10,306	25,022	15,332	7,818
Other payables and accruals	1,487	2,206	12,656	1,431
Other tax payables	4,621	6,653	6,749	7,016
Payables for purchase of property and equipment	91,970	96,939	20,529	11,752
Payables for salary	27,977	30,392	30,727	16,351
Payables for scholarship	1,333	2,790	3,297	1,531
Payables for social insurance and housing fund	4,502	5,697	8,880	—
Payables to employees	6,723	3,594	4,985	3,866
Rental income received in advances	1,550	5,618	3,475	2,083
	180,327	211,538	141,631	92,218

Trade and other payables amounted to approximately RMB180.3 million, RMB211.5 million, RMB141.6 million and RMB92.2 million as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively.

The increase in trade and other payables of approximately RMB31.2 million or approximately 17.3% from approximately RMB180.3 million as at 31 December 2019 to approximately RMB211.5 million as at 31 December 2020 was primarily due to (i) an increase in miscellaneous advances received from students of approximately RMB14.7 million, primarily attributable to the boarding fees to be refunded to students due to the temporary closure of student dormitories of the Target College during the school year of 2019/2020 as a result of the outbreak of COVID-19 pandemic; (ii) an increase in payables for purchase of property and equipment of approximately RMB5.0 million, mainly attributable to the costs payables for the construction of teaching facilities for the faculty of music; and (iii) an increase in rental income received in advance of approximately RMB4.1 million, primarily attributable to the advance rental payments from tenants for the lease arrangements newly entered into at the end of 2020.

The decrease in trade and other payables of approximately RMB69.9 million or approximately 33.0% from approximately RMB211.5 million as at 31 December 2020 to approximately RMB141.6 million as at 31 December 2021 was primarily due to (i) a decrease in payables for purchase of property and equipment of approximately RMB76.4

million, primarily attributable to the settlement of statutory fee for property title certificate of approximately RMB67.6 million by the Target College during FY2021; (ii) a decrease in miscellaneous advances received from students of approximately RMB9.7 million, mainly attributable to the fact that a portion of boarding fees were refunded to students during FY2020 due to the temporary closure of student dormitories of the Target College during the school year of 2019/2020 as a result of the outbreak of COVID-19 pandemic, whereas no such refund was made during FY2021, partially offset by (i) an increase in other payables and accruals of approximately RMB10.5 million, mainly attributable to the maintenance service fee and training cost incurred by the Target College during FY2021, which the corresponding payables had yet to be settled as at 31 December 2021; and (ii) an increase in payables for social insurance and housing fund of approximately RMB3.2 million, which was generally in line with an increase in the total number of the Target College's staff that were entitled to social insurance.

The decrease in trade and other payables of approximately RMB49.4 million or approximately 34.9% from approximately RMB141.6 million as at 31 December 2021 to approximately RMB92.2 million as at 31 March 2022 was primarily attributable to (i) a decrease in payables for salary of approximately RMB14.4 million, mainly due to the settlement of year-end bonus and rewards to the staff of the Target College during 3M2022, which the corresponding payables had yet to be settled as at 31 December 2021; (ii) a decrease in other payables and accruals of approximately RMB11.2 million, mainly due to the settlement of maintenance and repair expenses and training fees during 3M2022, which the corresponding payables had yet to be settled as at 31 December 2021; (iii) a decrease in payables for social insurance and housing fund of approximately RMB8.8 million, primarily attributable to the settlement of a one-off payment for social insurance; (iv) a decrease in payables for purchase of property and equipment of approximately RMB8.8 million, mainly due to decreases in expenses incurred for constructing civil air defence facilities, surveying and mapping and engineering; and (v) a decrease in miscellaneous advances received from students by approximately RMB7.5 million, mainly due to an increase in the distribution of teaching materials to students during 3M2022, which led to a decrease in the corresponding payable as at 3M2022, partially offset by an increase in trade payables of approximately RMB6.2 million, mainly due to an increase in the purchases of teaching materials and library books on credit during 3M2022.

The following table sets forth the ageing analysis of the trade payables as at the dates indicated:

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,090	1,090	1,680	7,892

Contract liabilities

Contract liabilities amounted to approximately RMB205.3 million, RMB198.9 million, RMB235.1 million and RMB150.1 million as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively, which represented the unsatisfied performance obligation as at the respective dates, and were expected to be recognised within one year thereafter.

During the Track Record Period, tuition and boarding fees were usually received by the Target College in advance before the commencement of school year in September each year, and were initially recognised as contract liabilities for proportionate revenue recognition over time of services rendered. Students are entitled to refund of payments in relation to the proportionate services not rendered. The table below sets forth the breakdown of contract liabilities as at the dates indicated:

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Tuition fees	186,691	191,517	215,166	137,618
Boarding fees	18,572	7,388	19,910	12,439
	205,263	198,905	235,076	150,057

The decrease in contract liabilities of approximately RMB6.4 million or approximately 3.1% from approximately RMB205.3 million as at 31 December 2019 to approximately RMB198.9 million as at 31 December 2020 was primarily attributable to the reclassification of a portion of boarding fees received to other payables (miscellaneous advances received from students) for refund to students due to the temporary closure of student dormitories of the Target College due to the outbreak of the COVID-19 pandemic, notwithstanding there was an increase in student enrollments for the school year of 2020/2021 as compared to the school year of 2019/2020.

The increase in contract liabilities of approximately RMB36.2 million or approximately 18.2% from approximately RMB198.9 million as at 31 December 2020 to approximately RMB235.1 million as at 31 December 2021 was primarily attributable to the tuition and boarding fees received in advance for the school year of 2021/2022 due to the increase in the number of student enrollment.

The decrease in contract liabilities of approximately RMB85.0 million or approximately 36.2% from approximately RMB235.1 million as at 31 December 2021 to approximately RMB150.1 million as at 31 March 2022 was primarily attributable to the recognition in three months of revenue for the school year of 2021/2022.

The following table sets forth the change in the contract liability balances during the Track Record Period:

	FY2019	FY2020	FY2021	3M2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	182,674	205,263	198,905	235,076
Revenue recognised that was included in contract liabilities at the beginning of the year/period	(182,674)	(205,263)	(198,905)	(88,071)
Increase due to tuition and boarding fees received, including amounts recognised as revenue during the year/period	325,283	330,606	388,882	4,180
Revenue recognised that was not included in contract liabilities at the beginning of the year/period	(116,546)	(119,056)	(152,982)	(892)
Refund to students	(3,474)	(2,127)	(824)	(236)
Transfer to other payables	—	(10,518)	—	—
At the end of the year/period	205,263	198,905	235,076	150,057

Amount due to/from fellow subsidiaries

Amount due to fellow subsidiaries amounted to approximately RMB57.0 million, RMB50.3 million, RMB5.4 million and RMB14.0 million as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively. Such balances primarily represented (i) advances from fellow subsidiaries; and (ii) payables in respect of the Target College's transactions with fellow subsidiaries. Such balances were unsecured, interest free and repayable on demand. As at 31 December 2019, 2020 and 2021 and 31 March 2022, amount due to fellow subsidiaries of trade related nature were approximately RMB6.7 million, nil, nil and RMB6.7 million, respectively, whereas amount due to fellow subsidiaries of non-trade related nature were approximately RMB50.3 million, RMB50.3 million, RMB5.4 million and RMB7.4 million, respectively. The Target College confirms that the non-trade related balance of amount due to fellow subsidiaries will be settled upon Completion.

Amount due from fellow subsidiaries were approximately RMB3,000, RMB52.2 million, RMB2.2 million and RMB11,000 as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively. Such balances primarily represented (i) advances to fellow subsidiaries; and (ii) receivables in respect of the Target College's transactions with fellow subsidiaries. Such balances were unsecured, interest free and repayable on demand. As at 31 December 2019, 2020 and 2021 and 31 March 2022, amount due from fellow subsidiaries of trade related nature were approximately RMB3,000, RMB1.9 million, RMB2.2 million and RMB11,000, respectively. As at 31 December 2019, 2020 and 2021 and 31 March 2022, amount due from fellow subsidiaries of non-trade related nature were nil, approximately RMB50.3 million, nil and nil, respectively.

Amount due from a shareholder

Amount due from a shareholder amounted to approximately RMB295.6 million, RMB332.4 million, RMB107.8 million and RMB69.8 million as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively. Such balances primarily represented advances to the shareholder. Other than a balance of approximately RMB0.7 million as at 31 March 2022 which was trade in nature, th remaining balances were non-trade nature, unsecured, interest free and repayable on demand.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital expenditures

During the Track Record Period, the Target College incurred capital expenditures of approximately RMB60.6 million, RMB65.7 million, RMB196.2 million and RMB2.2 million, respectively, mainly for the acquisition of property and equipment.

Capital commitments

The capital commitments of the Target College amounted to nil, approximately RMB36.7 million, nil and nil, as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively, which were related to the acquisition of property and equipment.

INDEBTEDNESS AND CONTINGENT LIABILITIES

Indebtedness

As at 31 December 2019, 2020 and 2021 and 31 March 2022, the Target College had total indebtedness of approximately RMB156.2 million, RMB142.2 million, RMB23.1 million and RMB59.0 million, respectively.

The table below sets out a breakdown of the indebtedness of the Target College as at the dates indicated:

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Lease liabilities	—	—	31,869	32,241
Other borrowings	84,016	66,955	—	—
	84,016	66,955	31,869	32,241
Current				
Notes Payables *(Note 1)*	7,337	7,920	9,688	11,296
Lease liabilities	—	—	8,058	8,115
Amounts due to fellow subsidiaries *(Note 2)*	50,313	50,282	5,361	7,363
Other borrowings	14,485	17,061	—	—
	72,135	75,263	23,107	26,774
Total	156,151	142,218	54,976	59,015

Notes:

(1) The notes payable are payable within one year, interest-free and secured by bank deposits.

(2) The balances were non-trade related, interest free and repayable on demand.

Lease liabilities

The Target College had lease liabilities in the amount of nil, nil and approximately RMB39.9 million and RMB40.4 million as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively. Such lease liabilities were primarily attributable to a number of lease agreements entered into between the Target College and a related company and a fellow subsidiary in respect of certain buildings. For details of the maturity analysis of the lease liabilities, please see note 16 to the Accountants' Report on the Target College set out in Appendix I to this circular.

Other borrowings

The Target College had other borrowings in the amount of approximately RMB98.5 million, RMB84.0 million, nil and nil as at 31 December 2019, 2020 and 2021 and 31 March 2022, respectively, which were denominated in RMB.

Such other borrowings represented the sales and leaseback entered into during the Track Record Period by the Target College with finance leasing companies for property and buildings, education equipment, and furniture and other equipment for a period of five years with nominal interest rates ranging from approximately 6.0% to 11.9% per annum. As compared to 31 December 2019, the decrease in total balance of other borrowings to approximately RMB84.0 million was primarily as a result of repayments made by the Target College during FY2020. The outstanding balances of such other borrowings were early settled by the Target College during FY2021, such that the balance was nil and the corresponding security was released as at 31 December 2021. As at 31 March 2022, the balance of other borrowings of the Target College remained at nil.

Contingent liabilities

As at 31 December 2019, 2020 and 2021 and 31 March 2022, the Target College did not have any outstanding contingent liabilities.

Disclaimer

Save as disclosed herein and in the Accountants' Report on the Target College included as Appendix I to this circular, the Target College did not have any loan capital (where applicable, or other arrangement of similar nature) issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, debentures, mortgages, charges hire purchases commitments, guarantees or other material contingent liabilities.

The Target College confirms that there had not been any material change in its indebtedness and contingent liabilities since 31 March 2022 and up to the Latest Practicable Date.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, the Target College had not entered into any off-balance sheet arrangement.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in note 31 to the Accountants' Report on the Target College included as Appendix I to this circular, the related party transactions occurred during the Track Record Period mainly comprised (i) purchases of inventories and/or products (such as teaching materials) from shareholder, fellow subsidiaries and related companies; (ii) purchases of assets (property and/or equipment) from shareholder, fellow subsidiaries and related companies; (iii) services received (such as catering and laboratory examination services) from shareholder, fellow subsidiaries and related companies; (iv) services provided (such as staff training services) to shareholder, fellow subsidiaries and related companies; (v) sales of education materials to fellow subsidiaries and related companies; (vi) interest on other borrowings with respect to the sales and leaseback arrangements entered into by the Target College and (vii) interest on lease liabilities with respect to several lease agreements entered into between the Target College and a related party in respect of certain buildings.

The Target College is of the view that these related party transactions were conducted on normal or better commercial terms and were fair and reasonable and in the interests of Target College as a whole.

KEY FINANCIAL RATIOS

The following table sets forth the key financial ratios of the Target College as at the dates indicated or of the years indicated:

	FY2019	FY2020	FY2021	3M2022
Net profit margin(1)	35.6%	33.2%	28.6%	34.7%
Return on capital(2)	25.5%	20.4%	16.2%	N/A(10)
Return on total assets(3)	11.1%	10.0%	9.6%	N/A(10)
Interest coverage ratio(4)	38.1	9.6	20.1	74.4

	As at 31 December			As at 31 March
	2019	2020	2021	2022
Current ratio(5)	69.7%	81.6%	41.5%	29.4%
Gearing ratio(6)	23.4%	15.9%	N/A(8)	N/A(8)
Net debt to capital ratio(7)	20.8%	14.8%	N/A(9)	N/A(9)

Notes:

(1) Net profit margin for each year is calculated based on the net profit divided by revenue for the respective year multiplied by 100%.

(2) Return on capital equals net profit for the year divided by the total balance of capital and reserves as at the end of the relevant year and multiplied by 100%.

(3) Return on total assets equals net profit for the year divided by total assets as at the end of the relevant year and multiplied by 100%.

(4) Interest coverage ratio equals profit before interest and tax for the year divided by finance cost in the relevant year.

(5) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of the respective year and multiplied by 100%.

(6) Gearing ratio is calculated based on the total interest-bearing borrowings divided by total balance of capital and reserves as at the end of the relevant and multiplied by 100%. For the purpose of the calculation, lease liabilities have been excluded.

(7) Net debt to capital ratio equals total interesting-bearing borrowings net of bank balances and cash divided by total balance of capital and reserves as at the end of the respective year.

(8) The Target College had no interest-bearing borrowings, such that the gearing ratio is not applicable.

(9) The Target College was at a net cash position, such that the net debt to capital ratio is not applicable.

(10) The figure for 3M2022 is not meaningful as it is not comparable to the annual figure.

Net profit margin

The net profit margin decreased from approximately 35.6% for FY2019 to approximately 33.2% for FY2020, mainly as a result of the decrease in boarding fees receivable for FY2020 due to the temporary closure of student dormitories of the Target College as a result of the outbreak of COVID-19. For FY2021, the net profit margin decreased to approximately 28.6%, mainly due to an increase in cost of services as discussed above, while at the same time there was only a relatively small increase in revenue of the Target College. For 3M2022, net profit margin however increased to approximately 34.7% primarily attributable to the fact that a substantial part of selling and distribution expenses are usually incurred in the second half of each year for the purpose of student admission for new school year commencing in September.

Return on capital

The return on capital decreased from approximately 25.5% for FY2019 to approximately 20.4% for FY2020, primarily attributable to the decrease in boarding fees receivable for FY2020 due to the temporary closure of student dormitories of the Target College as a result of the outbreak of COVID-19. For FY2021, the return on capital decreased to approximately 16.2% mainly due to an increase in the reserves resulting from the net profit recognised for FY2021 of the Target College.

Return on total assets

The return on total assets decreased from approximately 11.1% for FY2019 to approximately 10.0% for FY2020, primarily attributable to decrease in boarding fees receivable for FY2020 due to the temporary closure of student dormitories of the Target College as a result of the outbreak of COVID-19. For FY2021, the return on total assets further decreased to 9.6%, mainly as a result of the decrease in net profit in FY2021 due to an increase in cost of services of the Target College as discussed above.

Interest coverage ratio

The interest coverage ratio decreased from approximately 38.1 for FY2019 to approximately 9.6 for FY2020, mainly as a result of (i) the increase in finance costs of approximately RMB9.7 million, primarily attributable to the fact that the Target College settled all its liabilities under the existing finance lease agreement in early 2019 and did not make any interest payments thereafter until the re-entering of a new finance lease agreement in late 2019, notwithstanding there was a decrease in the total balance of other borrowings for FY2020; and (ii) the decrease in boarding fees receivable for FY2020 as discussed. For FY2021, the interest coverage ratio increased to approximately 20.1 as compared to that for FY2020, mainly as a result of the full resumption of boarding services for the school year 2020/2021 which led to an increase in boarding fees receivable for FY2021 as compared to

FY2020 and the early settlement of the outstanding principal of the finance lease agreement in June 2021. For 3M2022, the interest coverage ratio further increased to approximately 74.4 as compared to that for FY2021, mainly due to the fact that the Target College did not incur any interest-bearing borrowings during 3M2022, such that the finance costs for 3M2022 decreased substantially as compared to that for 3M2021.

Current ratio

The current ratio increased from approximately 69.7% as at 31 December 2019 to approximately 81.6% as at 31 December 2020, primarily attributable to an increase in amounts due from a shareholder and fellow subsidiaries of approximately RMB89.0 million in total, partially offset by a decrease in trade and other receivables of approximately RMB13.1 million and an increase in trade and other payables of approximately RMB31.2 million as discussed earlier. As at 31 December 2021, the current ratio decreased to approximately 41.5%, mainly attributable to a decrease in the amounts due from a shareholder of approximately RMB224.7 million and an increase in the contract liabilities of approximately RMB36.2 million, partially offset by an increase in trade and other payables of approximately RMB70.0 million. As at 31 March 2022, the current ratio decreased to approximately 29.4%, mainly attributable to (i) a decrease in bank balances and cash of approximately RMB43.3 million; and (ii) a decrease in the amounts due from a shareholder and fellow subsidiaries of approximately RMB40.2 million in total, partially offset by (i) a decrease in contract liabilities of approximately RMB85.0 million; and (ii) a decrease in trade and other payables of approximately RMB49.4 million.

Gearing ratio

The decrease in gearing ratio from approximately 23.4% as at 31 December 2019 to approximately 15.9% as at 31 December 2020, was primarily attributable the increase in capital and reserves resulting from the net profit recognised for FY2019 to FY2020. The Target College had no interest-bearing borrowings as at 31 December 2021 due to the repayment of other borrowings during FY2021. The Target College did not incur any interest-bearing borrowings during 3M2022, such that there was no interest-bearing borrowings as at 31 March 2022.

Net debt to capital ratio

The decrease in net debt to capital ratio from approximately 20.8% as at 31 December 2019 to approximately 14.8% as at 31 December 2020, was primarily attributable the increase in capital and reserves resulting from the net profit recognised for FY2019 to FY2020. The Target College was at a net cash position as at 31 December 2021 and 31 March 2022.

NO MATERIAL CHANGE

The Target College has confirmed that, up to the date of this circular, there has been no material adverse change in the financial or trading position of the Target College since 31 March 2022, and there has been no event since 31 March 2022 which has materially affected the information shown in the Accountants' Report on the Target College included as Appendix I to this circular.

PROPERTY VALUATION RECONCILIATION

The table below sets forth the reconciliation between the net book value of the property and buildings of the Target College ("**property**") as at 31 March 2022 and the fair value as at 31 May 2022 as stated in "Appendix IV — Property Valuation Report" to this circular.

	RMB'000
Net book value of the property as at 31 March 2022	759,409
Additions for the period from 1 April 2022 to 31 May 2022	301
Less: Depreciation of the property for the period from 1 April 2022 to 31 May 2022	(4,345)
Net book value of the property as at 31 May 2022	755,365
Valuation surplus, before tax	391,735
Valuation of the property as at 31 May 2022 as set forth in Appendix IV to this circular	1,147,100

In arriving at the valuation of the property as set out above, no commercial value was attributed to two properties which the Target College had yet to obtain the relevant real estate title certificates as at 31 May 2022. These properties had depreciated replacement cost of RMB61,400,000 and market value of RMB670,000. For further details, please refer to "Appendix IV — Property Valuation Report" to this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD. AND ZHONGTAI INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Yantai Nanshan University* 煙台南山學院 (the "Target College") set out on pages I-4 to I-52, which comprises the statements of financial position of the Target College as at 31 December 2019, 2020 and 2021 and 31 March 2022, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the three years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2022 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-52 forms an integral part of this report, which has been prepared for inclusion in the investment circular of International Alliance Financial Leasing Co., Ltd. dated 3 August 2022 (the "Circular") in connection with the proposed acquisition of the 70% equity interest in the Target College.

Directors' Responsibilities for the Historical Financial Information

The directors of the Target College (the "Directors") are responsible for the preparation of the Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, 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 (the "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

*: *English name is for identification purpose only*

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 preparation and presentation set out in Note 1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the 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 Target College as at 31 December 2019, 2020 and 2021 and 31 March 2022 and of the Target College's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Target College which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for three months ended 31 March 2021 and other explanatory information (the "Stub Period Comparative Financial Information"). The Directors are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board (the "IAASB"). A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing ("ISAs") and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on Matters Under the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rule") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which states that no dividends have been paid by the Target College in respect of the Track Record Period.

No historical financial statements for the Target College

No historical financial statements have been prepared for the Target College since its date of incorporation.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lee Shun Ming

Practising Certificate Number: P07068

Hong Kong
3 August 2022

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COLLEGE

Preparation of Historical Financial Information

The financial statements of the Target College for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRS Standards") issued by International Accounting Standards Board (the "IASB") and were audited by SHINEWING (HK) CPA Limited in accordance with International Standards on Auditing (the "ISAs") issued by the International Auditing and Assurance Standards Board ("IAASB") (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.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Three months ended 31 March	
		2019	2020	2021	2021	2022
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Revenue	8	301,120	324,535	356,497	79,839	90,654
Cost of services		(170,938)	(181,758)	(226,514)	(49,678)	(57,624)
Gross profit		130,182	142,777	129,983	30,161	33,030
Other income	8	17,803	12,988	18,975	4,912	5,550
Other gain, net	9	78	8,181	1,957	149	122
Selling and distribution expenses		(16,152)	(19,598)	(20,622)	(773)	(476)
Administrative expenses		(21,816)	(23,859)	(22,924)	(5,770)	(6,317)
Finance costs	11	(2,887)	(12,612)	(5,340)	(2,762)	(429)
Profit before tax		107,208	107,877	102,029	25,917	31,480
Income tax expense	12	—	—	—	—	—
Profit and total comprehensive income for the year/period	13	107,208	107,877	102,029	25,917	31,480
Total comprehensive income for the year/period attributable to:						
Owners of the Target College		107,208	107,877	102,029	25,917	31,480

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 March
		2019	2020	2021	2022
	NOTES	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property and equipment	15	619,759	655,962	817,354	809,946
Right-of-use assets	16	24,618	22,879	78,935	77,642
Deposits paid for acquisition of property and equipment		21	4,878	—	1,306
Other receivables	17	1,000	1,000	—	—
		645,398	684,719	896,289	888,894
Current assets					
Inventories	18	1,003	3,166	2,340	2,456
Trade and other receivables	17	16,094	2,965	4,823	3,369
Amount due from a shareholder	19	295,640	332,449	107,770	69,787
Amounts due from fellow subsidiaries	20	3	52,151	2,191	11
Bank balances and cash	21	10,861	5,693	48,781	5,435
		323,601	396,424	165,905	81,058
Current liabilities					
Trade and other payables	22	180,327	211,538	141,631	92,218
Notes payables	23	7,337	7,920	9,688	11,296
Lease liabilities	16	—	—	8,058	8,115
Contract liabilities	24	205,263	198,905	235,076	150,057
Amounts due to fellow subsidiaries	20	56,966	50,282	5,361	14,034
Other borrowings	25	14,485	17,061	—	—
		464,378	485,706	399,814	275,720
Net current liabilities		(140,777)	(89,282)	(233,909)	(194,662)
Non-current liabilities					
Lease liabilities	16	—	—	31,869	32,241
Other borrowings	25	84,016	66,955	—	—
		84,016	66,955	31,869	32,241
		420,605	528,482	630,511	661,991
Capital and reserves					
Paid-in capital	26	200,000	200,000	200,000	200,000
Reserves		220,605	328,482	430,511	461,991
		420,605	528,482	630,511	661,991

STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *RMB'000*	Surplus reserve *RMB'000* *(Note)*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2019	200,000	11,340	102,057	313,397
Profit and total comprehensive income for the year	—	—	107,208	107,208
Transfer from retained profits	—	10,721	(10,721)	—
At 31 December 2019 and 1 January 2020	200,000	22,061	198,544	420,605
Profit and total comprehensive income for the year	—	—	107,877	107,877
Transfer from retained profits	—	10,788	(10,788)	—
At 31 December 2020 and 1 January 2021	200,000	32,849	295,633	528,482
Profit and total comprehensive income for the year	—	—	102,029	102,029
Transfer from retained profits	—	10,203	(10,203)	—
At 31 December 2021 and 1 January 2022	200,000	43,052	387,459	630,511
Profit and total comprehensive income for the period	—	—	31,480	31,480
Transfer from retained profits	—	3,148	(3,148)	—
At 31 March 2022	200,000	46,200	415,791	661,991
At 1 January 2021 (Audited)	200,000	32,849	295,633	528,482
Profit and total comprehensive income for the period	—	—	25,917	25,917
Transfer from retained profits	—	2,592	(2,592)	—
At 31 March 2021 (Unaudited)	200,000	35,441	318,958	554,399

Note: Under the People's Republic of China (the "PRC") Law, the Target College established in the PRC are required to transfer 10% of their net profit determined under the generally accepted accounting principles in the PRC to a non-distributable statutory reserve. Statutory surplus reserve can be used to make up for previous year's losses or converted into additional capital. When the balance of such reserve reaches 50% of the capital, any further appropriation is optional.

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Three months ended 31 March	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
OPERATING ACTIVITIES					
Profit before tax	107,208	107,877	102,029	25,917	31,480
Adjustments for:					
Depreciation of property and equipment	27,344	29,281	34,682	9,588	9,609
Depreciation of right-of-use assets	703	689	1,209	168	1,293
Loss (gain) on disposal of property and equipment, net	60	204	(66)	(120)	(107)
Gain on disposal of right-of-use assets, net of related tax	—	(7,949)	—	—	—
Finance costs	2,887	12,612	5,340	2,762	429
Bank interest income	(332)	(230)	(231)	(47)	(51)
Operating cash flows before movements in working capital	137,870	142,484	142,963	38,268	42,653
Decrease (increase) in inventories	205	(2,163)	826	361	(116)
(Increase) decrease in trade and other receivables	(5,191)	13,129	(858)	(112)	1,454
(Decrease) increase in trade and other payables	(4,385)	26,242	6,503	(30,743)	(40,636)
Increase (decrease) in notes payables	2,916	583	1,768	(339)	1,608
(Increase) decrease in amounts due from fellow subsidiaries	(3)	(1,874)	(314)	1,816	2,180
Increase in amount due from a shareholder	—	—	—	—	(682)
Increase (decrease) in amounts due to fellow subsidiaries	5,192	(6,653)	—	2,858	6,671
Increase (decrease) in contract liabilities	22,589	(6,358)	36,171	(67,997)	(85,019)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	159,193	165,390	187,059	(55,888)	(71,887)
INVESTING ACTIVITIES					
Bank interest received	332	230	231	47	51
Purchase of property and equipment	(51,176)	(59,511)	(211,846)	(182)	(7,624)
Purchase of right-of-use assets	—	—	(17,492)	—	—
Proceeds on disposal of property and equipment	134	13	200	143	119
Proceeds from disposal of right-of-use assets, net of related tax	—	8,999	—	—	—
Deposits paid for acquisition of property and equipment	(21)	(60,840)	—	—	(1,306)
Withdrawal from restricted bank balances	8,317	11,548	9,350	9,350	894
Placement of restricted bank balances	(11,233)	(9,391)	(7,028)	(7,028)	(842)
Advance to a shareholder	(513,558)	(566,950)	(771,921)	(141,738)	(10,450)
Repayment from a shareholder	395,614	534,629	996,341	259,197	47,751
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(171,591)	(141,273)	(2,165)	119,789	28,593

	Year ended 31 December			Three months ended 31 March	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
FINANCING ACTIVITIES					
Interest paid for other borrowings	(2,887)	(12,612)	(5,186)	(2,762)	—
Additions of other borrowings	98,000	—	—	—	—
Repayments of other borrowings	(86,857)	(14,485)	(84,016)	(10,774)	—
Advances from fellow subsidiaries	137,698	106,594	—	—	—
Repayments to fellow subsidiaries	(139,471)	(106,625)	(50,282)	(48,155)	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	6,483	(27,128)	(139,484)	(61,691)	—
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,915)	(3,011)	45,410	2,210	(43,294)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	9,439	3,524	513	513	45,923
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/ PERIOD, represented by bank balances and cash	3,524	513	45,923	2,723	2,629

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

Yantai Nanshan University is a limited liability company incorporated in the PRC in 1988. In the opinion of the directors of the Target College (the "Directors"), the ultimate holding company of the Target College is Nanshan Group Co., Ltd., which is incorporated in PRC. The address of its registered office and principal place of business is University Park, Nanshandonghai Development Zone, Longkou City, Yantai, Shandong Province., PRC. The Target College is principally engaged in providing private tertiary education services, including tuition services and student accommodation services in the PRC.

The Historical Financial Information is presented in RMB, which is also the functional currency of the Target College.

Basis of preparation and presentation of historical financial information

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3 which conform with IFRS Standards issued by the IASB. All IFRS Standards effective for the accounting period commencing from 1 January 2022, together with the relevant transitional provisions, have been adopted by the Target College in the preparation of the Historical Financial Information throughout the Track Record Period.

The Historical Financial Information has been prepared under the historical cost convention.

Going concern

As at 31 March 2022, the Target College had net current liabilities of approximately RMB194,662,000. The Historical Financial Information have been prepared on a going concern basis as the current liabilities consisted of contract liabilities from customers of approximately RMB150,057,000, which will be settled by education services provided by the Target College rather than settled by cash. The Directors consider that the Target College will have sufficient working capital to finance its operations in the foreseeable future and accordingly are satisfied that it is appropriate to prepare the Historical Financial Information on a going concern basis.

2. NEW AND AMENDMENTS TO IFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

The Target College has not early applied the following new and amendments to IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts and related Amendments[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]
Initial Application of IFRS 17 and IFRS 9	Comparative Information (Amendment to IFRS 17)[1]

1 Effective for annual period beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after a date to be determined

The Directors anticipate that the application of all other new and amendments to IFRS Standards will have no material impact on the Historical Financial Information of the Target College in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with IFRS Standards issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for services.

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 regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

Revenue recognition

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Specifically, the Target College uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Target College recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a service (or a bundle of services) that is distinct or a series of distinct services that are substantially same.

Control of the service is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Target College's performance as the Target College performs;
- the Target College's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Target College's performance does not create an asset with an alternative use to the Target College and the Target College has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties and sales related taxes.

The Target College recognises revenue when the specific criteria have been met for the following activities:

Tuition and boarding fees received from customers are generally paid in advance prior to the beginning of each academic year, and are initially recorded as contract liabilities. Tuition and boarding fees are recognised proportionately over the periods of the applicable programme. The portion of tuition and boarding payments received from customers but not earned is recorded as a contract liability and is reflected as a current liability as such amounts represent revenue that the Target College expects to earn within one year or semester.

The Target College does not expect to have any contracts where the period between the transfer of the promised services to the customer and payment by the customer exceeds one year. As a consequence, the Target College does not adjust any of the transaction prices for the time value of money.

Other education service fees from the provision of other education services to students are collected in advance on a lump sum basis. Revenue is recognised proportionately over the periods of the applicable programme.

Contract liabilities

A contract liability represents the Target College's obligation to transfer goods or services to a customer for which the Target College has received consideration (or an amount of consideration is due) from the customer.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Target College's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target College expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Target College recognises the right-of-use assets and the related lease liabilities, the Target College first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Target College applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority

Current and deferred tax are recognised in profit or loss.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Target College as lessee

The Target College assesses whether a contract is contains a lease, at the inception of the contract. The Target College recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Target College recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Target College incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Target College presents right-of-use assets as a separate line in the statement of financial position.

The Target College applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Lease liabilities

At the commencement date, the Target College recognises and measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Target College uses its incremental borrowing rate.

Lease payments included in the measurement of the Target College's lease liability comprise fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate; and

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Target College as lessor

The Target College enters into lease agreements as a lessor with respect to some of its properties. Leases for which the Target College is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Sales and leaseback transactions

The Target College as a seller-lessee

For a transfer that does not satisfy requirements as a sale in accordance with IFRS 15, the transaction are in substance a financing arrangement under IFRS 9. Therefore, the Target College as a seller-lessee accounts for the proceeds received as other borrowings within the scope of IFRS 9.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the Historical Financial Information of the Target College, transactions in currencies other than the functional currency of the Target College (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rate of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences, arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit scheme

The employees of the Target College are required to participate in a central pension scheme operated by the local municipal government. The Target College is 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.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Property and equipment

Property and equipment, other than construction in progress are stated in the statements of financial position of the Historical Financial Information at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Ownership interests in leasehold land and buildings

When the Target College makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the statements of financial position of the Historical Financial Information. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property and equipment.

Depreciation is recognised so as to write off the cost of items of property and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the

Target College's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses on property and equipment and right-of-use assets

At the end of the reporting period, the Target College reviews the carrying amounts of its property and equipment and right-of-use assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Target College estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the first-in, first-out method. Net realisable value of inventories represents the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the statements of financial position of the Historical Financial Information comprise cash at banks and on hand.

For the purpose of the statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position when an entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target College's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Target College measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "other income" line item.

Impairment of financial assets

The Target College recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target College always recognises lifetime expected credit losses ("ECL") for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Target College's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Target College measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Target College recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target College compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target College considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target College presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target College has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Target College assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Target College considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Target College regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Target College considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target College, in full (without taking into account any collaterals held by the Target College).

The Target College considers that default has occurred when a financial asset is more than 90 days past due unless the Target College has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target College writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three months past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Target College's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Target College's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Target College in accordance with the contract and all the cash flows that the Target College expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 Leases.

If the Target College has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target College measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Target College recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Target College derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Target College neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target College recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target College retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target College continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by an entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by an entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Target College derecognises financial liabilities when, and only when, the Target College's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Provisions

Provisions are recognised when the Target College has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target College will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Fair value measurement

When measuring fair value, the Target College takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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 Target College 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. Specifically, the Target College categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of each reporting period, the Target College determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target College's accounting policies, which are described in Note 3, the Directors are required to make judgements, estimates and assumptions about the amounts of assets and liabilities, revenue and expenses reported and disclosures made in the Historical Financial Information. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements in applying accounting policies

The following is the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Target College's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the financial statements.

Ownership of the buildings and right-of-use assets

The Target College had not yet obtained the formal titles of certain of the buildings and right-of-use assets as detailed in Notes 15 and 16 from the relevant government authorities. In the opinion of the Directors, the absence of formal title to these buildings and right-of-use assets does not impair the value of the relevant assets to the Target College.

Income taxes

According to the Implementation Rules for the Law for Promoting Private Education ("Implementing Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. The Implementing Rules provide that the private schools for which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools, and relevant authorities under the State Council of the PRC may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. However, as of the date of this report, no separate policies, regulations or rules have been introduced by the authorities in this regard.

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether the Target College is subject to enterprise income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Target College to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such determination is made.

Key sources of estimation uncertainties

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives and residual values of property and equipment

The Target College's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property and equipment, and reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property and equipment of similar nature and functions.

If there are significant changes from previously estimated useful lives and residual values, the amount of depreciation expenses may change.

Impairment of property and equipment and right-of-use assets

The Target College assessed whether there are any indicators of impairment for property and equipment and right-of-use assets at the Track Record Period. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An 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.

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Target College uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Target College's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the Note 6(b).

5. CAPITAL RISK MANAGEMENT

The Target College manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target College's overall strategy remained unchanged during the Track Record Period.

The capital structure of the Target College consists of net debts, which includes amounts due to fellow subsidiaries and other borrowings, net of bank balances and cash and equity attributable to owners of the Target College, comprising paid-in capital, reserve and retained profits.

The Directors review the capital structure periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Target College will balance its overall capital structure through the issue of new debt or the redemption of existing debts.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	At 31 December			At 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at amortised cost	323,567	391,819	163,414	77,368
Financial liabilities				
Financial liabilities at amortised cost	336,960	341,485	146,456	108,449

(b) Financial risk management objective and policies

The Target College's major financial instruments include trade and other receivables, amounts due from fellow subsidiaries and a shareholder, bank balances and cash, trade and other payables, notes payables, amounts due to fellow subsidiaries and other borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

As at 31 December 2019, 2020 and 2021 and 31 March 2022, the Target College was exposed to fair value interest rate risk in relation to interest-free deposit and fixed rate other borrowings.

The Target College's exposure to cash flow interest rate risk in relation to bank balances is minimal as these balances have a short maturity period.

Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Target College. The Target College's exposure to credit risk mainly arises from granting credit to students for tuition and boarding fee, and from third party for other education services.

The credit risk of the Target College's financial assets, which mainly comprise trade and other receivables, bank balances and cash and amounts due from fellow subsidiaries and a shareholder, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

All of the Target College's trade and other receivables and amounts due from fellow subsidiaries and a shareholder have no collateral. The Target College assessed the credit quality of the counterparties by taking into account their financial position, credit history, forward-looking information and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any.

(i) Bank balances and cash

As at 31 December 2019, 2020 and 2021 and 31 March 2022, substantially all of the Target College's bank deposits were deposited with major financial institutions and a fellow subsidiary with financial institution certificate incorporated in the PRC, which management believes are of high-credit-quality without significant credit risk. The expected credit losses were assessed to be minimal at the end of the Track Record Period.

(ii) Trade receivables

The Target College applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Target College's trade receivables mainly represents the trade receivables from students for tuition and boarding fee, third parties for other services.

For the trade receivables from third parties, the counterparties are due from a number of individual students and corporate and management considers the credit risk is not high. The Target College maintains frequent communications with the counterparties. Management has closely monitored the credit qualities and the collectability of these receivables and considers that the expected credit risks of them are minimal in view of the history of cooperation with them and supportable forward-looking information.

The management writes off trade receivables when there is no reasonable expectations of recovering the trade receivables from students. The management assesses the expected loss rate every year and considers no need to change during the Track Record Period. The expected credit losses were assessed to be minimal at the end of the Track Record Period.

The Target College's concentration of credit risk by geographical locations is mainly in PRC, which accounted for 100%, 100%, 100% and 100% of the total trade receivable as at 31 December 2019, 2020 and 2021 and 31 March 2022. The concentration of credit risk is limited due to the student base being large and unrelated.

(iii) Other receivables and amounts due from fellow subsidiaries and a shareholder

The Directors consider the probability of default upon initial recognition of asset and whether there has been significant increase in credit risk on an ongoing basis during the Track Record Period. To assess whether there is a significant increase in credit risk the Target College compares risk of a default occurring on the assets as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information. Especially the following indicators are incorporated:

- Internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations;
- actual or expected significant changes in the operating results of the counterparty;
- significant changes in the expected performance and behaviour of the counterparty, including changes in the payment status of the counterparty and change in the operating results of the counterparty.

Financial assets are written off when there is no reasonable expectation of recovery. Where loans or receivables have been written off, the Target College continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Target College's exposure to credit risk

In order to minimise credit risk, the Target College has maintained the Target College's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is drawn from the Target College's own trading records to rate its customers and other debtors. The Target College's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Target College's current credit risk grading framework comprises the following categories:

Category	**Description**	**Basis for recognising ECL**
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit-impaired (refer to as Stage 1)	12-month ECL

Category	Description	Basis for recognising ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired (refer to as Stage 2)	Lifetime ECL — not credit-impaired
Default	Financial assets are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL — credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Target College has no realistic prospect of recovery	Amount is written off

The Target College reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts. Over the term of the financial assets, the Target College accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Target College considers historical loss rates for each category of debtors, and adjusts for forward-looking macroeconomic data.

As at 31 December 2019, 2020 and 2021 and 31 March 2022, management considers other receivables and amounts due from fellow subsidiaries and a shareholder as low credit risk as counterparties have a strong capacity to meet its contractual cash flow obligations in the near term. The credit quality is considered to be "Performing" when there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

The Target College has assessed that the expected credit losses for these receivables are immaterial under the 12 months expected losses method. Thus, the loss allowance provision recognised during the Track Record Period for these balances was minimal.

Liquidity risk

The Target College is exposed to liquidity risk as at 31 December 2019, 2020 and 2021 and 31 March 2022, as the Target College has net current liabilities of approximately RMB140,777,000, RMB89,282,000, RMB233,909,000 and RMB194,662,000 respectively. As detailed in Note 1, the Directors are of the opinion that the Target College will be able to finance its future working capital and to fulfill its financial obligation when they fall due.

The Target College's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet their liquidity requirements in the short and longer term. Management believes that there is no significant liquidity risk as the Target College is able to generate net cash inflow from operating activities and to satisfy its future working capital and other financing requirements from its operation cash flows.

In the management of the liquidity risk, the Target College monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target College's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Target College's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target College can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The tables include both interest and principal cash flows.

	On demand	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total undiscounted cash flow**	**Carrying amounts**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019						
Trade and other payables	—	174,156	—	—	174,156	174,156
Notes payables	—	7,337	—	—	7,337	7,337
Amounts due to fellow subsidiaries	56,966	—	—	—	56,966	56,966
Other borrowings	—	27,096	27,096	81,290	135,482	98,501
	56,966	208,589	27,096	81,290	373,941	336,960

	On demand	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total undiscounted cash flow**	**Carrying amounts**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020						
Trade and other payables	—	199,267	—	—	199,267	199,267
Notes payables	—	7,920	—	—	7,920	7,920
Amounts due to fellow subsidiaries	50,282	—	—	—	50,282	50,282
Other borrowings	—	27,096	27,096	54,824	109,016	84,016
	50,282	234,283	27,096	54,824	366,485	341,485

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flow	Carrying amounts
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2021							
Trade and other payables	—	131,407	—	—	—	131,407	131,407
Notes payables	—	9,688	—	—	—	9,688	9,688
Amounts due to fellow subsidiaries	5,361	—	—	—	—	5,361	5,361
	5,361	141,095	—	—	—	146,456	146,456
Lease liabilities	4,862	4,862	4,862	14,586	19,448	48,620	39,927

	On demand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total undiscounted cash flow	Carrying amounts
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 March 2022							
Trade and other payables	—	83,119	—	—	—	83,119	83,119
Notes payables	—	11,296	—	—	—	11,296	11,296
Amounts due to fellow subsidiaries	14,034	—	—	—	—	14,034	14,034
	14,034	94,415	—	—	—	108,449	108,449
Lease liabilities	4,862	4,862	4,862	14,586	19,448	48,620	40,356

7. SEGMENT INFORMATION

During the Track Record Period, the Target College's revenue represents amounts received and receivable from the provision of education and boarding services, net of subsidies and sales related taxes.

Information reported to the executive directors of the Target College, being the chief operating decision maker (the "CODM"), for the purpose of resources allocation and assessment of performance focuses on the operating results of the Target College as a whole as the Target College's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

During the Track Record Period, the Target College operated within one geographical segment because all of its revenue was generated in the PRC and all of its non-current assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

No revenue from individual external customer contributed over 10% of total revenue of the Target College for each of the reporting periods.

8. REVENUE AND OTHER INCOME

		Year ended 31 December			Three months ended 31 March	
	Notes	**2019**	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Unaudited)	
Revenue						
Tuition fees	a	260,521	285,414	307,257	71,726	82,304
Boarding fees	a	24,877	16,862	27,775	6,675	7,458
Other education service fees	b	15,722	22,259	21,465	1,438	892
		301,120	324,535	356,497	79,839	90,654
Other income						
Bank interest income		332	230	231	47	51
Rental income		6,234	5,773	11,765	3,022	3,217
Sales of education materials		5,443	3,481	4,494	1,299	1,799
Installation income		2,517	—	—	—	—
Bathroom service income		1,357	681	611	107	70
Sundry income		1,920	2,823	1,874	437	413
		17,803	12,988	18,975	4,912	5,550

Notes:

a) During Track Record Period, tuition fees and boarding fees mainly represented income received from the provision of education and boarding services to the students, which was recognised over time, i.e. the academic year, of the services rendered.

b) During Track Record Period, other education service fees mainly represented income received from the provision of other education services including training services to the students, which was recognised over time, i.e. the periods of the applicable programme, of the services rendered.

9. OTHER GAIN, NET

	Year ended 31 December			Three months ended 31 March	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Other (losses) gain, net					
(Loss) gain on disposal of property and equipment, net	(60)	(204)	66	120	107
Gain on disposal of right-of-use assets, net of related tax	—	7,949	—	—	—
Others	138	436	1,891	29	15
	78	8,181	1,957	149	122

10. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

	Fees	Salaries	Discretionary bonuses	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019					
Executive directors					
Song Zuowen	—	—	—	—	—
Wu Guohua	—	351	49	—	400
Liu Chenggang *(Note xiii)*	—	138	31	2	171
Liang Yubing *(Note ix)*	—	123	29	3	155
Wang Yuhai *(Note ix)*	—	—	—	—	—
Meng Xiangnan *(Note viii)*	—	—	—	—	—
Cheng Rence *(Note viii)*	—	—	—	—	—
	—	612	109	5	726
Year ended 31 December 2020					
Executive directors					
Song Zuowen	—	—	—	—	—
Wu Guohua	—	376	54	—	430
Liu Chenggang *(Note xiii)*	—	131	37	21	189
Liang Yubing *(Note ix)*	—	133	36	17	186
Wang Yuhai *(Note ix)*	—	—	—	—	—
Meng Xiangnan *(Note viii)*	—	—	—	—	—
Cheng Rence *(Note viii)*	—	—	—	—	—
	—	640	127	38	805

	Fees	Salaries	Discretionary bonuses	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2021					
Executive directors					
Song Zuowen	—	—	—	—	—
Wu Guohua	—	430	56	—	486
Liu Chenggang *(Note xiii)*	—	170	40	32	242
Liang Yubing *(Note ix)*	—	127	37	7	171
Wang Yuhai *(Note ix)*	—	—	—	—	—
Meng Xiangnan *(Note viii)*	—	—	—	—	—
Cheng Rence *(Note viii)*	—	—	—	—	—
Qu Yongyin *(Note x)*	—	417	—	—	417
Xu Huizhong *(Note xi)*	—	258	21	—	279
Zhu Pengcheng *(Note xi)*	—	120	19	9	148
Song Yinghao *(Note xi)*	—	—	—	—	—
Sui Rongqing *(Note xii)*	—	—	—	—	—
Song Zuolan *(Note xii)*	—	—	—	—	—
	—	1,522	173	48	1,743

	Fees	Salaries	Discretionary bonuses	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Three months ended 31 March 2021 (Unaudited)					
Executive directors					
Song Zuowen	—	—	—	—	—
Wu Guohua	—	102	56	—	158
Liu Chenggang *(Note xiii)*	—	39	40	8	87
Liang Yubing *(Note ix)*	—	39	37	2	78
Wang Yuhai *(Note ix)*	—	—	—	—	—
Meng Xiangnan *(Note viii)*	—	—	—	—	—
Cheng Rence *(Note viii)*	—	—	—	—	—
Qu Yongyin *(Note x)*	—	93	—	—	93
Xu Huizhong *(Note xi)*	—	59	—	—	59
Zhu Pengcheng *(Note xi)*	—	26	—	2	28
Song Yinghao *(Note xi)*	—	—	—	—	—
	—	358	133	12	503

	Fees	Salaries	Discretionary bonuses	Retirement benefit scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Three months ended 31 March 2022					
Executive directors					
Song Zuowen	—	—	—	—	—
Wu Guohua	—	108	60	—	168
Liu Chenggang *(Note xiii)*	—	—	—	—	—
Qu Yongyin *(Note x)*	—	—	20	—	20
Xu Huizhong *(Note xi)*	—	66	44	—	110
Zhu Pengcheng *(Note xi)*	—	24	17	10	51
Song Yinghao *(Note xi)*	—	—	—	—	—
Sui Rongqing *(Note xii)*	—	—	—	—	—
Song Zuolan *(Note xii)*	—	—	—	—	—
	—	198	141	10	349

(i) The remuneration shown above represents remuneration received and receivable from the Target College by these directors and no directors or the CE waived or agreed to waive any emolument during the Track Record Period.

(ii) No director fees were paid to these directors in their capacity as directors of the Target College and no emoluments were paid by the Target College to the Directors as an inducement to join the Target College, or as compensation for loss of office during the Track Record Period. The emoluments of Directors disclosed above include those for services rendered by them in connection with the management of the affairs of the Target College during the Track Record Period.

(iii) Mr. Wu Guohua is also the CE of the Target College and his emoluments disclosed above include those for services rendered by him as the CE.

(iv) During the Track Record Period, no retirement benefits payments or benefits in respect of termination of Directors' services were paid or made, directly or indirectly, to the Directors; nor are any payable. No consideration was provided to or receivable by third parties for making available directors' services.

(v) During the Track Record Period, no significant transactions, agreements and contracts in relation to the Target College's business to which the company was a party and in which a director of the Target College had material interest, whether directly or indirectly, subsisted.

(vi) During the Track Record Period, there were no loans, quasi-loans and other dealing arrangements in favour of the Directors, or controlled body corporate and connected entities of such directors.

(vii) No independent non-executive directors were appointed during the Track Record Period.

(viii) Ms. Meng Xiangnan and Mr. Cheng Rence were resigned as executive director in July 2021.

(ix) Mr. Liang Yubing and Mr. Wang Yuhai were resigned as executive director in March 2021.

(x) Mr. Qu Yongyin was appointed as executive director in March 2021 and resigned in April 2022.

(xi) Mr. Xu Huizhong, Mr. Zhu Pengcheng and Mr. Song Yinghao were appointed as executive director in March 2021.

(xii) Mr. Sui Rongqing and Ms. Song Zuolan were appointed as executive director in July 2021.

(xiii) Mr. Liu Chenggang was resigned as executive director in April 2022.

(xiv) Mr. Yang Wanli and Mr. Qiao Renjie were appointed as executive director in April 2022.

(b) Five highest paid employees

The five highest paid employees during the years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2021 and 2022 included 2, 2, 2, 3 and 3 directors, respectively, details of whose remuneration are set out in note (a) above. Details of the remuneration of the remaining 3, 3, 3, 2 and 2 highest paid employees who are neither a director nor chief executive of the Target College during the years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2021 and 2022 are as follows:

	Year ended 31 December			Three months ended 31 March	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Salaries, allowances and benefits in kind	526	594	1,308	288	390
Retirement benefit scheme contributions	—	—	—	—	—
	526	594	1,308	288	390

The number of the highest paid employees who are not the Directors whose remuneration fell within the following band is as follows:

	Year ended 31 December			Three months ended 31 March	
	2019	**2020**	**2021**	**2021** (Unaudited)	**2022**
Nil to HK$1,000,000	3	3	3	2	2

11. FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest on other borrowings	2,887	12,612	5,186	2,762	—
Interest on lease liabilities	—	—	154	—	429
	2,887	12,612	5,340	2,762	429

During the years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2021 and 2022, the interest on other borrowings paid by the Target College to a related company was approximately RMB501,000, RMB12,612,000, RMB5,186,000, RMB2,762,000 and nil respectively.

During the years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2021 and 2022, the interest on lease liabilities payable by the Target College to its shareholder was approximately nil, nil, RMB154,000, nil and RMB429,000 respectively.

12. INCOME TAX EXPENSE

Enterprise Income Tax (the "EIT") is provided on assessable profits of entities incorporated in the PRC at the rate of 25% during the Track Record Period.

According to the Implementation Rules, 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 services are eligible to enjoy income tax exemption treatment if the sponsors of such schools do not require reasonable returns.

The income tax expense for the year/period can be reconciled to the profit before tax per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Three months ended 31 March	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit before tax	107,208	107,877	102,029	25,917	31,480
Tax calculated at the domestic EIT rate of 25%	26,802	26,969	25,507	6,479	7,870
Net profits not subject to tax	(26,802)	(26,969)	(25,507)	(6,479)	(7,870)
Income tax expense for the year/ period	—	—	—	—	—

13. PROFIT FOR THE YEAR/PERIOD

Profit for the year/period has been arrived at after charging:

	Year ended 31 December			Three months ended 31 March	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Employee benefit expenses (excluding Directors' remuneration *(Note 10)*):					
Salaries, allowances and benefits in kind	97,208	115,625	133,062	30,835	30,454
Retirement benefit scheme contributions	11,708	10,915	14,957	3,291	6,342
Total staff costs	108,916	126,540	148,019	34,126	36,796
Auditor's remuneration	—	—	—	—	—
Depreciation of property and equipment	27,344	29,281	34,682	9,588	9,609
Depreciation of right-of-use assets	703	689	1,209	168	1,293

14. DIVIDENDS

No dividend has been paid or declared by the Target College during the Track Record Period.

15. PROPERTY AND EQUIPMENT

	Property and buildings RMB'000	Education equipment RMB'000	Furniture and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2019	808,953	48,812	145,253	1,462	105	1,004,585
Additions	562	7,087	7,944	9	45,021	60,623
Disposals	(434)	(1)	(2,551)	(3)	—	(2,989)
Transfers	3,138	—	—	—	(3,138)	—
At 31 December 2019 and 1 January 2020	812,219	55,898	150,646	1,468	41,988	1,062,219
Additions	5,403	7,397	5,221	2,910	44,770	65,701
Disposals	(151)	(245)	(3,320)	—	—	(3,716)
Transfers	44,305	—	—	—	(44,305)	—
At 31 December 2020 and 1 January 2021	861,776	63,050	152,547	4,378	42,453	1,124,204
Additions	118,374	7,747	13,189	2,585	54,313	196,208
Disposals	(50)	(549)	(2,108)	(397)	—	(3,104)
Transfers	96,766	—	—	—	(96,766)	—
At 31 December 2021 and 1 January 2022	1,076,866	70,248	163,628	6,566	—	1,317,308
Additions	125	70	2,000	—	18	2,213
Disposals	—	—	—	(241)	—	(241)
At 31 March 2022	1,076,991	70,318	165,628	6,325	18	1,319,280
ACCUMULATED DEPRECIATION						
At 1 January 2019	247,989	37,873	131,243	806	—	417,911
Charge for the year	20,070	2,937	4,182	155	—	27,344
Elimination on disposals	(368)	(1)	(2,423)	(3)	—	(2,795)
At 31 December 2019 and 1 January 2020	267,691	40,809	133,002	958	—	442,460
Charge for the year	20,945	3,172	4,961	203	—	29,281
Elimination on disposals	(118)	(233)	(3,148)	—	—	(3,499)
At 31 December 2020 and 1 January 2021	288,518	43,748	134,815	1,161	—	468,242
Charge for the year	22,521	2,974	8,584	603	—	34,682
Elimination on disposals	(22)	(475)	(2,085)	(388)	—	(2,970)
At 31 December 2021 and 1 January 2022	311,017	46,247	141,314	1,376	—	499,954
Charge for the period	6,583	786	2,057	183	—	9,609
Elimination on disposals	—	—	—	(229)	—	(229)
At 31 March 2022	317,600	47,033	143,371	1,330	—	509,334
CARRYING VALUES						
At 31 December 2019	544,528	15,089	17,644	510	41,988	619,759
At 31 December 2020	573,258	19,302	17,732	3,217	42,453	655,962
At 31 December 2021	765,849	24,001	22,314	5,190	—	817,354
At 31 March 2022	759,391	23,285	22,257	4,995	18	809,946

The above items of property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, as follows:

Property and buildings	20–40 years
Education equipment	5–15 years
Furniture and other equipment	3–5 years
Motor vehicles	8 years

Depreciation of the property and equipment was included in the following categories in the statements of profit or loss and other comprehensive income:

	Year ended 31 December			Three months ended 31 March	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of services	26,385	28,206	33,622	9,364	9,493
Selling and distribution expenses	115	98	98	24	24
Administrative expenses	844	977	962	200	92
Total	27,344	29,281	34,682	9,588	9,609

As at 31 December 2019, 2020 and 2021 and 31 March 2022, there are properties with a carrying amount of approximately RMB528,695,000, RMB556,661,000, RMB731,218,000 and RMB55,155,000, respectively, located in the PRC of which the Target College is in the process of obtaining the ownership certificates.

16. LEASES

The Target College as a lessee

Lump sum payments were made upfront to acquire certain land use rights from the government with lease terms of 50 years, and no ongoing payments will be made under the terms of these land leases. The certain land use rights are amortised on a straight-line basis over lease terms as stated in the relevant land use right certificates. The Target College has lease arrangements for buildings. The lease terms were ten years.

(i) Right-of-use assets

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Land use rights	24,618	22,879	39,493	39,195
Buildings	—	—	39,442	38,447
Total	24,618	22,879	78,935	77,642

During the year ended 31 December 2020, the Target College entered into a sale and purchase agreement with a related company to dispose certain land use rights of carrying amount of approximately RMB1,050,000 for consideration approximately RMB20,631,000 and resulted a net gain on disposal of approximately RMB7,949,000 after respective taxes incurred.

During the year ended 31 December 2021, the Target College entered into a sale and purchase agreement and lease agreement with a fellow subsidiary and a shareholder to acquire land use rights with consideration approximately RMB17,492,000 and right-of-use assets of buildings of RMB39,773,000.

As at 31 December 2019, 2020 and 2021 and 31 March 2022, certificates of ownership in respect of certain land use rights of the Target College, with total net carrying amounts of approximately RMB24,618,000, RMB22,879,000, nil and nil, respectively, have not yet been issued by the relevant PRC authorities.

(ii) Lease liabilities

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	—	—	8,058	8,115
Non-current	—	—	31,869	32,241
	—	—	39,927	40,356

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	8,058	8,115
After one year but within two years	—	—	3,367	3,407
After two years but within five years	—	—	11,092	11,222
After five years	—	—	17,410	17,612
	—	—	39,927	40,356
Less: Amount due for settlement within 12 months (shown under current liabilities)	—	—	(8,058)	(8,115)
Amount due for settlement after 12 months	—	—	31,869	32,241

During the year ended 31 December 2021, the Target College entered into lease agreements in respect of buildings with a related company and recognised lease liabilities of RMB39,773,000.

(iii) Amounts recognised in profit or loss

	Year ended 31 December			Three months ended 31 March	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Depreciation expenses on right-of-use assets					
— Land use rights	703	689	878	168	299
— Buildings	—	—	331	—	994
	703	689	1,209	168	1,293
Interest on lease liabilities	—	—	154	—	429

(iv) Others

During the year ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2021 and 2022, the total cash outflow for leases amount to nil, nil, RMB17,492,000, nil and nil respectively.

Restrictions or covenants on leases

As at 31 December 2019, 2020 and 2021 and 31 March 2022, other borrowings of RMB98,501,000, RMB84,016,000, nil and nil are recognised as sale and leaseback liabilities. The lease agreements did not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for other borrowings purposes. Details of the security interests are set out in Note 25.

Sale and leaseback transactions — seller-lease

To better manage the Target College's capital structure and financing needs, the Target College entered into sale and leaseback arrangements with finance leasing companies in relation to certain property and buildings, education equipment and furniture and other equipment lease ("Secured Assets") for a period of five years during the years ended 31 December 2019 and 2020. These legal transfers did not satisfy the requirements of IFRS 15 to be accounted for as a sale of the Secured Assets. The Group has raised approximately RMB150,000,000 before the Track Report Period. During the year ended 31 December 2019, the Target College has raised approximately RMB98,000,000 other borrowings in respect of such sale and leaseback arrangement.

During the year ended 31 December 2021, the Target College early settled the outstanding balance.

The Target College as a lessor

The Target College leases its properties, consisting certain portion of buildings held by the Target College as the owner under operating leases.

As at 31 December 2019, 2020 and 2021 and 31 March 2022, the undiscounted lease payments receivable by the Target College in future periods under non-cancellable operating leases with its tenants are as follows:

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	5,625	10,521	8,216	6,554
After one year but within two years	5,750	7,696	4,096	3,301
After two years but within three years	2,858	4,474	120	120
After three years but within four years	100	100	80	50
After four years but within five years	100	67	—	—
After five years	67	17	—	—
	14,500	22,875	12,512	10,025

17. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Deposits *(Note)*	1,000	1,000	—	—
Current				
Trade receivables	1,900	216	4,610	1,691
Prepaid expenses	31	2,439	151	1,234
Advance to employees	—	310	—	—
Other receivables	14,163	—	62	444
	16,094	2,965	4,823	3,369

Note: The deposits were paid to a related company as a security deposit of other borrowings. The security deposit was refunded when the Target College early settled the other borrowings during the year ended 31 December 2021.

Students are required to pay tuition fees and boarding fees in advance for the upcoming school years, which normally commences in September of the year. The trade receivables represent other tuition and services fees receivable from students applied other tuition and services during school year. There is no significant concentration of credit risk with a number of individual students.

An ageing analysis of the trade receivables as at 31 December 2019, 2020 and 2021 and 31 March 2022, based on the transaction date and net of loss allowance, is as follows:

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	1,900	216	4,610	1,691

The Target College applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Target College overall considers the credit risk and days past due of the trade receivables to measure the expected credit losses.

Trade receivables as at 31 December 2019, 2020 and 2021 and 31 March 2022 were not past due and had no recent history of default. The expected credit losses were assessed to be minimal at the end of the respective reporting period.

18. INVENTORIES

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	570	953	1,228	1,219
Finished goods	433	2,213	1,112	1,237
	1,003	3,166	2,340	2,456

19. AMOUNT DUE FROM A SHAREHOLDER

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount due from a shareholder				
— Trade	—	—	—	682
— Non-trade	295,640	332,449	107,770	69,105
	295,640	332,449	107,770	69,787

The amount due from a shareholder are unsecured, interest-free and repayable on demand.

The maximum amounts outstanding during the years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2022 were approximately RMB304,766,000, RMB347,730,000, RMB332,449,000 and RMB107,770,000, respectively.

The amount due from a shareholder of approximately nil, RMB5,688,000, nil and nil respectively were deposit for acquisition of property and equipment as at 31 December 2019, 2020 and 2021 and 31 March 2022.

During the Track Report Period, the Target College estimated the expected credit loss for amount due from a shareholder was minimal.

20. AMOUNTS DUE FROM (TO) FELLOW SUBSIDIARIES

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from fellow subsidiaries				
— Trade	3	1,877	2,191	11
— Non-trade	—	50,274	—	—
	3	52,151	2,191	11

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due to fellow subsidiaries				
— Trade	6,653	—	—	6,671
— Non-trade	50,313	50,282	5,361	7,363
	56,966	50,282	5,361	14,034

The amounts due from (to) fellow subsidiaries are unsecured, with interest-free and repayable on demand.

The amounts due from fellow subsidiaries of approximately nil, RMB50,274,000, nil and nil respectively were deposit for acquisition of property and equipment as at 31 December 2019, 2020 and 2021 and 31 March 2022.

The amounts due to fellow subsidiaries of approximately nil, nil, RMB5,361,000 and RMB7,363,000 respectively were payables for purchase of property and equipment as at 31 December 2019, 2020 and 2021 and 31 March 2022.

During the Track Report Period, the Target College estimated the expected credit loss for amounts due from fellow subsidiaries was minimal.

21. BANK BALANCES AND CASH

	As at 31 December			As at 31 March
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at banks and on hand	10,861	5,693	48,781	5,435
Analysis of bank balances and cash at end of the year/period:				
Cash at bank and on hand *(note a)*	539	445	411	422
Cash placed at NanShan Finance *(note b)*	2,985	68	45,512	2,207
	3,524	513	45,923	2,629
Restricted bank balances *(note c)*	7,337	5,180	2,858	2,806
	10,861	5,693	48,781	5,435

Notes:

a) Cash at bank carries interest at prevailing market rates for Track Record Period.

b) The balance is unsecured, interest-bearing at rates ranging from 0.35% to 1.69% per annum and recoverable on demand. The Directors consider that these deposits made to a fellow subsidiary, Nanshan Group Finance Co. Ltd.* 南山集團財務有限公司 ("Nanshan Finance"), is qualified as cash as the Target College can withdraw the deposits without giving any notice and without suffering any penalty.

c) Restricted bank balances of the Target College are used as pledged deposits made to Nanshan Finance for notes payables. The Target College cannot use them until the related transactions are matured and released.

22. TRADE AND OTHER PAYABLES

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	1,090	1,090	1,680	7,892
Deposit received	509	520	425	447
Government grants *(note a)*	28,259	31,017	32,896	32,031
Miscellaneous advances received from students *(note b)*	10,306	25,022	15,332	7,818
Other payables and accruals	1,487	2,206	12,656	1,431
Other tax payables	4,621	6,653	6,749	7,016
Payables for purchase of property and equipment	91,970	96,939	20,529	11,752
Payables for salary	27,977	30,392	30,727	16,351
Payables for scholarship *(note c)*	1,333	2,790	3,297	1,531
Payables for social insurance and housing fund	4,502	5,697	8,880	—
Payables to employees *(note d)*	6,723	3,594	4,985	3,866
Rental income received in advances *(note e)*	1,550	5,618	3,475	2,083
Total trade and other payables	180,327	211,538	141,631	92,218

Notes:

a) The grants are mainly related to the grants received from the government for the purpose of compensating the expenses arising from the researching activities by teachers and students. The grants are received on behalf of teachers and students and distributed to teachers and students when the related activities are completed. Government grants received for undistributed amount are included in trade and other payables.

b) The advances represented expenses relating to textbooks, insurance, etc. collected from students which will be paid on behalf of students.

c) The Target College receives subsidies from different parties for distribution to students as scholarship to students.

d) The advances represented employees benefit payables and funding to the employees.

e) The advances represented rental income received in advances from tenants based on terms of tenancy agreements entered.

An ageing analysis of the trade payables as at 31 December 2019, 2020 and 2021 and 31 March 2022, based on the invoice date.

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	1,090	1,090	1,680	7,892

23. NOTES PAYABLES

The ageing analysis of notes payables presented based on the issue date as at 31 December 2019, 2020 and 2021 and 31 March 2022 is as follows:

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	1,383	2,322	4,983	540
Within 31–90 days	4,546	5,276	1,736	4,036
Within 91–180 days	1,408	322	2,969	6,720
	7,337	7,920	9,688	11,296

Note: The notes payables are issued by a fellow subsidiary, NanShan Finance. The notes payables are repayable within one year, interest-free and secured by bank deposits placed to NanShan Finance amounting of approximately RMB7,337,000, RMB5,180,000, RMB2,858,000 and RMB2,806,000 respectively as at 31 December 2019, 2020 and 2021 and 31 March 2022.

24. CONTRACT LIABILITIES

The Target College recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2019, 2020 and 2021 and 31 March 2022 are expected to be recognised within one year:

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Tuition fees	186,691	191,517	215,166	137,618
Boarding fees	18,572	7,388	19,910	12,439
	205,263	198,905	235,076	150,057

The Target College receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition, boarding fees and other education service are recognised proportionately over the relevant periods of the applicable programme. The students are entitled to the refund of payments in relation to the proportionate services not yet rendered.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	182,674	205,263	198,905	235,076
Revenue recognised that was included in contract liabilities at the beginning of the year/period	(182,674)	(205,263)	(198,905)	(88,071)
Increase due to tuition, boarding fees and other education services fees received, including amounts recognised as revenue during the year/period	325,283	330,606	388,882	4,180
Revenue recognised that was not included in contract liabilities at the beginning of the year/period	(116,546)	(119,056)	(152,982)	(892)
Refund to students	(3,474)	(2,127)	(824)	(236)
Transfer to other payables *(Note)*	—	(10,518)	—	—
At the end of the year/period	205,263	198,905	235,076	150,057

Note: Certain boarding fees were reclassified to other payables to students as refund to the students for the closure of campuses as a result of the COVID-19 pandemic.

25. OTHER BORROWINGS

	As at 31 December			As at 31 March
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings from sale and leaseback liabilities	98,501	84,016	—	—
Analysed into				
Repayable within one year	14,485	17,061	—	—
Repayable in the second year	17,061	19,201	—	—
Repayable within two to five years	66,955	47,754	—	—
Subtotal	84,016	66,955	—	—
	98,501	84,016	—	—

To better manage the Target College's capital structure and financing needs, the Target College enters into sale and leaseback arrangements with finance leasing companies in relation to Secured Assets for a period of five years during the years ended 31 December 2019 and 2020. These legal transfers do not satisfy the requirements of IFRS 15 to be accounted for as a sale of Secured Assets. The Group has raised approximately RMB150,000,000 before the Track Report Period. During the year ended 31 December 2019, the Target College has raised approximately RMB98,000,000 other borrowings in respect of such sale and leaseback arrangement.

During the year ended 31 December 2021, the Target College early settled the outstanding balance.

Nominal interest rates underlying that entire contract are ranged from 6.00% to 11.88% per annum.

Sale and leaseback obligations were secured by certain of the Target College's property and buildings and furniture and other equipment and released during the year ended 31 December 2021.

26. PAID-IN CAPITAL

	RMB
Registered:	
As at 1 January 2019, 31 December 2019, 2020 and 2021 and 31 March 2022	200,000,000
Paid up:	
As at 1 January 2019, 31 December 2019, 2020 and 2021 and 31 March 2022	200,000,000

27. MAJOR NON-CASH TRANSACTIONS

During the Track Record Period, the Target College has entered the following non-cash transactions:

(a) During the year ended 31 December 2021, the Target College had non-cash additions to right-of-use assets and lease liabilities of RMB39,773,000, in respect of lease arrangements for buildings.

(b) During the year ended 31 December 2020, the shareholder has undertaken the other receivable of approximately RMB10,723,000.

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target College's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statements of cash flows as cash flows from financing activities.

	1 January 2019	**Financing cash flows**	**Finance cost incurred**	**31 December 2019**
	RMB'000	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*
Amounts due to fellow subsidiaries	52,086	(1,773)	—	50,313
Other borrowings	87,358	8,256	2,887	98,501
	139,444	6,483	2,887	148,814

	1 January 2020	**Financing cash flows**	**Finance cost incurred**	**31 December 2020**
	RMB'000	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*
Amounts due to fellow subsidiaries	50,313	(31)	—	50,282
Other borrowings	98,501	(27,097)	12,612	84,016
	148,814	(27,128)	12,612	134,298

	1 January 2021 RMB'000	Financing cash flows RMB'000 (Note)	Finance costs incurred RMB'000	Non-cash change Lease addition RMB'000	31 December 2021 RMB'000
Amounts due to fellow subsidiaries	50,282	(50,282)	—	—	—
Lease liabilities	—	—	154	39,773	39,927
Other borrowings	84,016	(89,202)	5,186	—	—
	134,298	(139,484)	5,340	39,773	39,927

	1 January 2021 RMB'000	Financing cash flows RMB'000 (Unaudited) (Note)	Finance costs incurred RMB'000 (Unaudited)	31 March 2021 RMB'000 (Unaudited)
Amounts due to fellow subsidiaries	50,282	(48,155)	—	2,127
Other borrowings	84,016	(13,536)	2,762	73,242
	134,298	(61,691)	2,762	75,369

	1 January 2022 RMB'000	Financing cash flows RMB'000 (Note)	Finance costs incurred RMB'000	31 March 2022 RMB'000
Lease liabilities	39,927	—	429	40,356

Note: The cash flows make up the net amount of advances from and repayments to fellow subsidiaries and additions and repayments of other borrowings in the statements of cash flows.

29. CAPITAL COMMITMENT

	As at 31 December 2019 RMB'000	2020 RMB'000	2021 RMB'000	As at 31 March 2022 RMB'000
Capital expenditure in respect of the acquisition of property and equipment contracted for but not provided in the financial statements	—	36,702	—	—

30. RETIREMENT BENEFITS SCHEME

As stipulated by rules and regulations in the PRC, the Target College in the PRC is required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Target College has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. During the years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2021 and 2022, the total amount contributed by the Target College to this scheme and charged to the statements of profit or loss and other comprehensive income were approximately RMB11,713,000, RMB10,953,000, RMB15,005,000, RMB3,303,000 and RMB6,352,000 respectively.

31. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Target College entered into transactions with related parties during the Track Record Period as follows:

(a) Transactions with related parties

		Year ended 31 December			Three months ended 31 March	
		2019	2020	2021	2021	2022
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Shareholder:						
Services received	i	500	—	386	—	128
Services provided	ii	146	13	146	—	—
Purchase of Inventory	vi	—	—	51	—	—
Purchase of property and equipment	iii	—	241	113,763	—	—
Interest on lease liabilities	iv	—	—	154	—	429
Fellow subsidiaries:						
Sale of education materials	v	536	—	—	—	—
Services received	i	23,530	23,051	23,892	6,883	1,721
Services provided	ii	696	13,885	3,428	39	50
Purchase of inventory	vi	2,584	2,415	2,067	165	6,832
Purchase of property and equipment	iii	26,931	6,279	65,196	561	159
Purchase of land use rights	vii	—	—	17,492	—	—
Related companies:						
Sales of land use rights	vii	—	20,631	—	—	—
Services received	i	6,568	6,475	6,165	42	80
Services provided	ii	17	123	251	40	34
Purchase of inventory	vi	7,545	4,446	5,281	1,192	1,958
Purchase of property and equipment	iii	1,451	1,220	3,341	—	60
Interest on other borrowings	viii	501	12,612	5,186	2,762	—

Notes:

(i) The services for the general operation received were charged based on the mutually agreed terms.

(ii) The other education services provided were charged based on the mutually agreed terms.

(iii) The purchase of property and equipment were made according to the mutually agreed terms.

(iv) The interest on lease liabilities was charged at rates 4.65% per annum.

(v) The purchase of inventory were made according to the mutually agreed terms.

(vi) The sale of education materials were made according to the mutually agreed terms.

(vii) The sales and purchase of land use rights were made according to the mutually agreed terms.

(viii) The interest on other borrowings was charged at rates 11.88% per annum.

During the year ended 31 December 2019, the Target college raised other borrowings of approximately RMB98,000,000 from the fellow subsidiary. The amount has been early settled during the year ended 31 December 2021.

The shareholder provided certain portion of office, training centre, dormitory and restaurant for the Target College to use at nil consideration during the year ended 31 December 2019, 2020 and 2021.

On 1 December 2021, the Target College entered into lease agreements with a ten-year lease in respect of certain buildings from the shareholder and recognised right-of-use assets and lease liabilities of RMB39,773,000. The amount of rent payable by the Target College under the lease is RMB5,300,000 (tax inclusive) per month. The rent is charged at terms mutually agreed by the parties. As at 31 December 2021, the carrying amount of such lease liabilities is RMB39,927,000. During the year ended 31 December 2021 and three months ended 31 March 2022, the Target College had not made lease payment to the shareholder.

(b) Compensation of key management personnel

During the Track Record Period, the remuneration of the Directors and other members of key management are as follows:

	Year ended 31 December			Three months ended 31 March	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Short-term benefits	1,339	1,769	2,758	851	837
Post-employment benefits	11	72	52	13	33
	1,350	1,841	2,810	864	870

The remuneration of the Directors and key executives is determined by having regard to his performance and the Target College's performance and market trends for the Track Record Period.

32. EVENTS AFTER THE REPORTING PERIOD

No significant events took place subsequent to 31 March 2022.

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for each of the three years ended 31 December 2019, 2020 and 2021 are disclosed in the following annual reports of the Company which have been published on the websites of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.iaf-leasing.com/):

- The audited consolidated financial statements of the Group for the year ended 31 December 2019 is disclosed in the 2019 annual report of the Company published on 13 May 2020, from pages 44 to 119. Please also see below the links to the 2019 annual report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0513/2020051300339.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2020 is disclosed in the 2020 annual report of the Company published on 16 April 2021, from pages 47 to 119. Please also see below the links to the 2020 annual report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0416/2021041601569.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2021 is disclosed in the 2021 annual report of the Company published on 25 April 2022, from pages 46 to 107. Please also see below the links to the 2021 annual report of the Company:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0425/2022042500513.pdf

2. STATEMENT OF INDEBTEDNESS OF THE ENLARGED GROUP

As at 30 June 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding indebtedness of approximately RMB515.2 million. The indebtedness of the Enlarged Group was as follows:

(a) Borrowings

	Borrowings *RMB'000*
Secured and unguaranteed borrowings	4,000
Unsecured and unguaranteed borrowings	463,710
Total	467,710

As at 30 June 2022, the Enlarged Group's borrowings were secured by finance lease receivables of approximately RMB331.1 million.

(b) Lease liabilities

	Lease liabilities *RMB'000*
Unsecured and unguaranteed lease liabilities	35,907

(c) Contingent liabilities

As at 30 June 2022, the Enlarged Group had no contingent liabilities. The Enlarged Group is currently not a party to any litigation that is likely to have a material adverse effect on its business, results of operations or financial conditions.

(d) Amount due to a shareholder of Target College

	Amount due to a shareholder of Target College *RMB'000*
Unsecured and unguaranteed amount due to a shareholder of Target College	11,561

The amount due to a shareholder of Target College was unsecured, interest-free and repayable on demand.

Save as aforesaid or otherwise disclosed herein, as at 30 June 2022, the Enlarged Group did not have any other outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, guarantees or any material contingent liabilities.

The Directors confirmed that there has been no material adverse change in the indebtedness and contingent liabilities of the Enlarged Group since 30 June 2022, being the latest practicable date for determining Enlarged Group's indebtedness up to the date of this circular.

3. WORKING CAPITAL

After taking into account the effect of the Acquisition and the successful arrangement of the related funding requirements, the financial resources available to the Enlarged Group, the internally generated funds, existing bank balances and cash, available banking facilities and the existing credit facilities, for the working capital needs of the Enlarged Group, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

In addition to the proceeds raised from the Listing which were mainly used for business operations in finance leasing business, the Group continues to steadily explore new business opportunities in its finance leasing business and expanded its customer base to petroleum industry in 2021. Also, to expand the customer base of its finance leasing business, the Group has been actively pitching business to the suppliers of its existing customers, as well as broadening its targeted industries.

On one hand, the Group started exploring opportunities in expanding/diversifying its service channels to minimise the risks associated with its industry concentration and the specific industries concerned. For instance, in April 2021, the Company entered into a strategic corporation agreement with a company engaging in petroleum business, pursuant to which the parties thereto agreed to conduct business through a finance leasing business model, including sale-leaseback and direct finance services. Also, the Group has been actively pitching or in arm's length discussions with a number of potential customers from sectors in education, shipping and renewable energy, including photovoltaic and wind power.

On the other hand, the Group has expanded its customer base since the Listing. As at 31 December 2021, the Group had 75 customers spreading across five major industries (i.e. logistics, petroleum, healthcare, public infrastructure and aviation) and scattering across various regions of the PRC, with a presence in a total of 46 cities across 17 provinces, such as Heilongjiang up north, Guangdong down south and Yunnan in the west.

The above illustrates that the Group has continued its operation scale of its principal business and has no intention to downsize the scale of operations after the Listing and up to the Latest Practicable Date. With the improving performance of the Group's finance leasing business as stated in the paragraph headed "4. Management discussion and analysis of the Group — For the year ended 31 December 2021 — Financial Review" in this Appendix II, it is not commercially sensible for the Group and the Group also does not have any intention to dispose of its existing finance leasing business. Further, the Board confirms that the Group still commits to operating and developing its existing principal business of finance leasing and has no intention to downsize and/or dispose the existing business after the Acquisition. For further details of the Group's plan of its finance leasing business, please refer to the paragraph headed "Management discussion and analysis of the Group — For the year ended 31 December 2021 — Outlook and plans" in this Appendix II below.

Accordingly, following the Acquisition, the Group will operate its existing financial leasing business and the Target College in parallel. Set out below is the management discussion and analysis of the existing Group as set out in the annual reports of the Company for the years ended 31 December 2019 (the "**2019 Annual Report**"), 31 December 2020 (the "**2020 Annual Report**") and 31 December 2021 (the "**2021 Annual Report**") published on 13 May 2020, 16 April 2021 and 25 April 2022, respectively.

For the year ended 31 December 2021

Business Overview

2021 was a critical year for the development of the finance leasing industry. The overall business environment in the PRC has been gradually improving from the unexpectedly severe COVID-19 pandemic. According to the National Bureau of Statistics of the PRC (中國國家統計局), China's GDP reached RMB114.4 trillion, with a year-on-year growth of 8.1%. The improvement in overall business environment facilitated lessees under finance leasing agreements, especially those in the healthcare industry, to make timely repayments, resulting in a net reversal of impairment losses on the Group's finance lease receivables.

The leasing industry is also affected by the change of market regulations and is undergoing structural adjustment. Since the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) issued the Interim Measures for the Supervision and Administration of Financial Leasing Companies* (《融資租賃公司監督管理暫行辦法》) in 2020, industry supervision became more stringent. In 2021, various regions in the PRC have successively issued their regional implementation rules, which carefully took into account the actual situation of the regions to ensure and safeguard sustainable development of the industry. The regulatory requirements cover the issues and risks of finance leasing companies, focusing on due diligence, management of leased assets and capital investment. This development provided more certain supervision indicators, clearing out shell companies, and led to more effective reforms which are beneficial for healthier and more sustainable development in the industry as a whole.

In terms of data, as of the end of December 2021, the national balance of finance leasing contracts amounted to approximately RMB6.21 trillion, a continuous decrease from RMB6.50 trillion at the end of 2020 and RMB6.65 trillion at the end of 2019. By the end of 2021, the total number of finance leasing companies in China was 11,180 (end of 2020: 12,156), a year-on-year decrease of 8.0% (2020: an increase of 0.2%). The competition in the leasing industry, and hence the finance leasing industry, further intensified.

Based on the development of the financial leasing business environment as mentioned above, the Group builds on its existing customer base and develop its business by adhering to the principle of "quality over quantity" and actively seeks opportunities amid changes.

In 2021, the Group invested in new leasing projects moderately. The core work was still the effective management of its leased assets and key leasing projects, resulting in a substantial improvement in the overall performance of the Group. Further, the Group started expanding or diversifying its service channels. For example, the Group expanded its customer base to petroleum business in April 2021. On the other hand, the Group has been exploring to acquire businesses beyond the purview of finance leasing, especially those provide stable cash flow, so as to supplement the Group's existing finance leasing business squarely in providing a natural hedge to the Group's financial liquidity. In April 2021, the Company and Nanshan Group entered into a memorandum of understanding regarding acquisition of the sponsor's interest in Yantai Nanshan University* (煙台南山學院) (the "**Proposed Acquisition**"). For further details, please refer to the Company's announcements regarding the Proposed Acquisition dated 19 April 2021, 18 June 2021, 17 August 2021 and 15 December 2021.

2021 was the first year of the "14th Five-Year Plan". China's manufacturing industry is undergoing transformation and equipment upgrading, and evolution from traditional manufacturing to digital and intelligent manufacturing. It is expected to promote a new round of rapid growth in the next five years. As such, demand for financing will remain strong. As one of the common medium- and long-term financing tools in the manufacturing industry, the Group will continue to cultivate in key industries. In addition, the overall penetration rate of leasing in the Chinese market is still far lower than that of European and American markets, industry development potential is still relatively large. Overall, the financial leasing industry has huge potential and a very bright prospect.

The Group will continue to pay close attention to the market changes in finance leasing industry, adjust its business strategies in a timely manner, expand and diversify its business scope, actively adjust the speed of business development, give priority to risk prevention and control at appropriate times, and strengthen the project approval committee's role in project selection. It is committed to improving and enhancing the level of asset management, diversifying customer and project categories, improving the quality of its cashflows and reducing overall asset risk.

Financial Review

Revenue

The Group's revenue mainly derived from finance lease income. The Group's finance leasing services included sale-leaseback and direct finance leasing.

Revenue decreased by approximately 6.5% from approximately RMB248.0 million for the year ended 31 December 2020 to approximately RMB231.8 million for the year ended 31 December 2021. Such decrease was mainly because the Group has been more cautious in selecting quality customers and approving new projects as a result of the change of finance leasing business environment as mentioned under the paragraph headed "4. Management discussion and analysis of the Group — For the year ended 31 December 2021 — Business Overview" in this Appendix II.

Other income, gains or losses

Other income, gains or losses, which primarily derived from (i) government grants; (ii) investment and interest income; (iii) gain or loss (where applicable) on disposal of plant and equipment; and (iv) others, increased from approximately RMB11.9 million for the year ended 31 December 2020 to approximately RMB16.6 million for the year ended 31 December 2021.

Specifically, the government grants, which are subject to change depending on the tax payment every year, increased from approximately RMB8.9 million for the year ended 31 December 2020 to approximately RMB10.9 million for the year ended 31 December 2021; the investment and interest income increased from approximately RMB2.7 million for the year ended 31 December 2020 to approximately RMB5.3 million for the year ended 31 December 2021; and others increased from approximately RMB0.2 million for the year ended 31 December 2020 to approximately RMB0.4 million for the year ended 31 December 2021, offset by loss on disposal of plant and equipment amounted to approximately RMB14,000 for the year ended 31 December 2021, as compared to gain on disposal of plant and equipment of approximately RMB1,000 for the year ended 31 December 2020.

Staff costs

Staff costs primarily included employee salaries and the related costs of other benefits. The staff costs increased by approximately RMB1.6 million from approximately RMB9.5 million for the year ended 31 December 2020 to approximately RMB11.1 million for the year ended 31 December 2021. The increase in staff costs was mainly a consequence of the full-year effect of the increased number of staff in 2021 after setting up the wholly-owned subsidiary located in Shenzhen in August 2020. Number of staff remained stable as at 31 December 2021 at 32 (2020: 33).

Other operating expenses

Other operating expenses primarily included rental expenses, entertainment expenses, legal and professional fees and travelling expenses. For the year ended 31 December 2021, the other operating expenses amounted to approximately RMB27.4 million (2020: approximately RMB21.4 million), representing approximately 11.8% of the total revenue of the Group (2020: approximately 8.6%).

Finance costs

Finance costs primarily derived from (i) borrowings; (ii) imputed interest on deposits from finance lease customers; (iii) bills payables; (iv) lease liabilities; and (v) bonds payable (for the year ended 31 December 2020 only). The finance costs decreased by approximately 30.3% from approximately RMB128.8 million for the year ended 31 December 2020 to approximately RMB89.8 million for the year ended 31 December 2021. The decrease in finance costs was mainly a result of the decrease in borrowing costs by approximately 32.0% from approximately RMB100.9 million for the year ended 31 December 2020 to approximately RMB68.6 million for the year ended 31 December 2021, and the decrease in bonds payable from approximately RMB17.4 million for the year ended 31 December 2020 to nil for the year ended 31 December 2021, which was due to the repayment of the bonds payable.

Profit for the year

Net profit was mainly attributed to a net reversal in impairment losses on finance lease receivables due to the gradually improving business environment in overall in the PRC facilitating the lessees, particularly in the healthcare industry, to make timely repayments.

Net profit for the year ended 31 December 2021 amounted to approximately RMB78.9 million, as compared to approximately RMB16.6 million for the year ended 31 December 2020, representing a significant increase of approximately 3.75 times. The net profit margin for the year ended 31 December 2021 was 34.0%, as compared to 6.7% recorded for the year ended 31 December 2020, which was, as mentioned above, mainly a result of the net reversal of impairment loss provided for the finance lease receivables during the year.

Dividend

The Board did not recommend payment of any final dividend to Shareholders for the year ended 31 December 2021 (2020: nil).

Liquidity, financial resources and capital resources

As at 31 December 2021, the cash and cash equivalents amounted to approximately RMB141.8 million (2020: approximately RMB35.7 million). Working capital (current assets less current liabilities) and the total equity of the Group amounted to approximately RMB983.9 million (2020: approximately RMB448.1 million) and approximately RMB1,273.5 million (2020: approximately RMB1,195.5 million), respectively.

As at 31 December 2021, the total balance of borrowings amounted to RMB795.9 million (2020: RMB1,489.0 million). As at 31 December 2021, the Group's borrowings due within one year amounted to approximately RMB169.9 million (31 December 2020: approximately RMB930.1 million) and the Group's borrowings due after one year amounted to approximately RMB626.0 million (31 December 2020: approximately RMB558.9 million). For further details, including the structure, maturity profile and effective interest rates, please refer to note 24 to the consolidated financial statements of the 2021 Annual Report.

As at 31 December 2021, the gearing ratio (dividing the total indebtedness by total equity and indebtedness as at the end of the period) was approximately 38.5% (2020: approximately 55.5%). Such decrease was mainly due to the decrease in the borrowings and bonds payable compared with the scale of the Group's business.

Finance lease receivables

Finance lease receivables are mainly (i) gross amount of finance lease receivables; offset by (ii) unearned finance income; and (iii) allowance for impairment losses. As at 31 December 2021, the respective carrying amounts of such components of the finance lease receivables amounted to (i) approximately RMB2,590.6 million; (ii) approximately RMB310.2 million; and (iii) approximately RMB260.5 million (as at 31 December 2020, the respective carrying amounts of such components of the finance lease receivables amounted to (i) approximately RMB3,445.1 million; (ii) approximately RMB453.2 million; and (iii) approximately RMB287.9 million).

The finance lease receivables decreased by approximately 25.3% from approximately RMB2,703.9 million as at 31 December 2020 to RMB2,020.0 million as at 31 December 2021, mainly due to a decrease in the gross amount of finance lease receivables.

The allowances for impairment losses decreased by approximately 9.5% from approximately RMB287.9 million as at 31 December 2020 to approximately RMB260.5 million as at 31 December 2021.

Background information of the lessees which was relevant to the impairment recorded during the year

One customer, which was in the aviation industry, (2020: eight customers, six of which in the healthcare industry and two of which in the aviation industry) was unable to repay the relevant rental fees for the financial year ended 31 December 2021. Accordingly, the Group made provision for impairment under IFRS 9 — Financial instruments to reflect the outstanding sum during the year.

The factors, events and circumstances leading to the reversal of impairment loss

Consistent with practices in previous financial years, in the financial year ended December 2021, the Group has assessed the general ageing of finance lease receivables and took prudent measures to recover the outstanding rental fee. Such measures included demanding repayments by telephone calls and physical visits, as well as instituting legal proceedings, etc.

Due to the gradually improving business environment in the PRC facilitating the lessees, particularly those in the healthcare industry, to make timely repayments, it led to a net reversal in impairment losses on finance lease receivables for the year ended 31 December 2021.

The Board is of the view that the reversal of impairment losses for the year ended 31 December 2021 is fair and reasonable because (a) it is in line with the relevant accounting policies under the International Financial Reporting Standards ("IFRS"); and (b) it is in conformity of the market situation and reflecting the Company's situation.

The methods and basis used in determining the amount of the impairment

The Group's main business entity is a financial leasing company, which adopts a three-stage model to measure expected credit losses in accordance with the requirements of the new financial instrument standards. The amount of expected credit losses is updated on each reporting date to reflect the changes in credit risk since the initial recognition. The Group calculates the provision of loss based on 12-month expected credit loss, unless the credit risk has increased significantly since the initial recognition, the Group recognises the existence of expected credit loss. The assessment of whether the expected credit loss of the duration should be recognised is based on the substantial increase in the probability or risk of default since the initial recognition. The expected credit loss model and the estimation or calculation formula of relevant parameters for the receivable financial lease funds are as follows:

ECL = EAD x PD x LGD x DF

EAD: Present value of minimum lease payment receivable minus security deposit

PD: Probability of Default refers to the possibility that the borrower cannot repay the principal and interest of the financial lease or perform relevant obligations according to the contract requirements within a certain period of time in the future. The probability of default is the base for calculating the expected loss of finance lease receivable. The Group will base on the measurement method of its internal credit rating historical data and consider the rating of the companies according to the credit rating historical data accumulated over a long period of time, including past repayment records, current and previous financial data and leased property value, etc, by taking the average value of historical probability of default as the corresponding default probability of such companies under different credit ratings.

LGD: Loss Given Default is an estimate of loss arising on default, which is obtained by mapping the main scale of external rating. The regulatory reference value and peer practice under the primary credit risk method are adjusted in combination with the Company's business characteristics. The LGD in the Group's impairment model is set based on the regulatory reference value, the LGD of peers, and the fact that the Company's collection strength will be lower than that of banks and financial institutions in combination with expert experience.

DF: $1/(1+EIR)^{t-1}$, where EIR is the effective interest rate of the contract, and t is the remaining term.

Based on the IFRSs, the Group made a relatively reasonable estimation on the recovery of future funds from a prudent perspective, and provided appropriate amount of impairment allowance.

In case that certain lessees failed to repay on time, the Group adopted actions, like active on-site collection or legal actions to minimise the chance of making impairment allowance. Further, the Group deployed different means to recover impaired finance lease receivables. Please refer to the Company's announcement dated 27 May 2020 and the paragraph headed "The Company's measures of recovering the impaired finance lease receivables" below for further details. With the measures taken by the Group and the timely repayment of certain lessees, particularly those in healthcare industry as a result of the improving business environment, the allowances for impairment loss for the year ended 31 December 2021 decreased.

The Company's measures of recovering the impaired finance lease receivables

The Company classifies the overdue repayment cases into three categories and deploys different means (subject to the travel restrictions imposed due to the COVID-19) to recover the impaired finance lease receivables accordingly, details of which are summarised as follows:

1. category 1: 30 days or less past due — the Company demands repayment by telephone and physically visiting the customers, to negotiate a deadline for the customers to repay all overdue amount;

2. category 2: 30 to 90 days past due — the Company enhances the recovery method by demanding repayment by telephone and physically visiting the customers frequently, as well as issuing pre-action letter to recover overdue amount; and

3. category 3: 90 days or more past due — the Company will issue pre-action letter and institute legal proceedings against the relevant customers to recover outstanding sums as well as penalty, liquidated damages and other expenses as permitted under the laws of PRC. The Company may also negotiate a new repayment schedule with the relevant customers to recover the outstanding sums abovementioned, and even dispose of the leased assets and demand the difference between the sale proceeds and the outstanding sums from the relevant customers.

Finance lease commitments

As at 31 December 2021, the Group had no finance lease commitments (31 December 2020: nil).

Pledged assets

Save as disclosed in notes 17(iv) and 21 to the consolidated financial statements of the 2021 Annual Report, the Group did not have any pledged assets for the years ended 31 December 2020 and 31 December 2021, respectively.

Employees and remuneration policy

As at 31 December 2021, the Group employed 32 full time employees (31 December 2020: 33) for its principal activities. Employees' benefits expenses (including Directors' emoluments) amounted to approximately RMB11.1 million for the year ended 31 December 2021 (2020: approximately RMB9.5 million).

The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to the performance of the Group, the performance of the employees and the prevailing market rates. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the share option scheme adopted by the Company. Please refer to the paragraph headed "Report of the Directors — Share Option Scheme" in the 2021 Annual Report.

Significant investments

The Company did not have any significant investments (including significant investments which accounted for 5% or more of the total assets of the Group) during the year ended 31 December 2021.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

During the year ended 31 December 2021, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Foreign exchange risk

The Group receives majority of payments from customers in Renminbi and majority of the Group's revenue and costs are also denominated in Renminbi. The Group may need to convert and remit Renminbi into foreign currencies for the payment of dividends, if any, to holders of shares of the Company. The Group assets and liabilities are mainly denominated in Renminbi, United States dollar and Hong Kong dollar.

The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

Risk Management

As a finance leasing company serving different industries, the Group assumes various risks in its business operations, including credit, liquidity, marketing, compliance, legal, operational and reputational risks, among which credit risk is its primary exposure. The Group has developed a comprehensive risk management system and controls risks through measures including due diligence on customers, independent information review and a multi-level approval process.

The Group strives to balance business development, risk management and operation efficiency. The Group has established comprehensive risk management and internal control processes to deal with various risks relating to its finance leasing business. Its risk management processes are tailored to the characteristics of its business operations, with a focus on managing risks through comprehensive customer due diligence, independent information review and multi-level approval process. Its risk management processes also include a continuous review process after a finance leasing project is approved. The asset management team reviews the leased assets on a regular basis, including performing on-site visits to inspect the status of the leased asset. This continuous review process enables the Group to identify any potential default of its customers and take remedial actions to enhance the security of its assets at an early stage.

The Group measures and monitors the asset quality of its finance lease receivables by voluntarily adopting a five-category classification with reference to guidelines promulgated by the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) relating to asset quality for financial institutions under its regulation as follows:

Pass. There is no sufficient reason to doubt that the lease payments will not be paid by the lessee in full on a timely basis. Pass asset has certain characteristics, for example, the lease payments have always been repaid in full on a timely manner or overdue for less than or equal to 90 days.

Special Mention. Even though the lessee has been able to pay the lease payments in a timely manner, there are some factors that could adversely affect its ability to pay, such as that the financial position of the lessee has worsened or its net cash flow has become negative, but there are sufficient guarantees or collaterals underlying the finance lease agreement. Special Mention asset has certain characteristics, for example, the payments have been overdue for more than 90 days but less than or equal to 150 days.

Substandard. The lessee's ability to pay is in obvious question as it is unable to make its payments in full with its operating revenue, and the Group is likely to incur losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Substandard asset has certain characteristics, for example, the lease payments have been overdue for more than 150 days but less than or equal to 210 days.

Doubtful. The lessee's ability to pay is in absolute question as it is unable to make lease payments in full, and the Group is likely to incur significant losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Doubtful asset has certain characteristics, for example, the lease payments have been overdue for more than 210 days but less than or equal to 270 days.

Loss. After taking all possible steps or going through all necessary legal procedures, lease payments remain overdue or only a very limited portion has been recovered. Loss asset has certain characteristics, for example, the lease payments have been overdue for more than 270 days.

At the same time, the Group assesses its provisions using an appropriate expected credit loss model based on the relevant requirements of IFRS and its internal provision procedures and guidelines upon consideration of factors such as the nature and characteristics of its industry-specific customers, credit record, economic conditions and trends, history of write-offs, payment delinquencies, the value of the assets underlying the leases and the availability of collateral or guarantees. The Group will regularly assess the expected credit loss model in accordance to actual loss of financial assets and adjust when necessary.

Contingent Liabilities

As at 31 December 2021, the Group did not have any material contingent liabilities (2020: nil).

Use of Proceeds from the Global Offering

The Company was listed on the Main Board of the Stock Exchange on 15 March 2019. The actual net proceeds (the "**Net Proceeds**") from the global offering of the 495,000,000 new shares of the Company (the "**Global Offering**") were approximately HK$354.3 million (equivalent to approximately RMB319.2 million). As disclosed in the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in the Prospectus, the Company intended to use the Net Proceeds as follows:

1. approximately 50% to apply towards the Group's business operation expansion in healthcare industry;

2. approximately 40% to apply towards the Group's business operation expansion in aviation and public infrastructure industries; and

3. approximately 10% to apply towards the Group's general working capital.

The details of the use of Net Proceeds and the timeline of utilisation of the Net Proceeds are set out as follows:

As at 31 December 2021

Use of Net Proceeds	**Planned amount use of the Net Proceeds** *(RMB' million)* *(Note)*	**Utilised amount** *(RMB' million)*	**Unutilised amount** *(RMB' million)*	**Timeline of utilisation of Net Proceeds**
The Group's business operation expansion in healthcare industry	159.6	159.6	—	Fully utilised in 2021
The Group's business operation expansion in aviation and public infrastructure industries	127.7	127.7	—	Fully utilised in 2020
The Group's general working capital	31.9	31.9	—	Fully utilised in 2021
Total	319.2	319.2	—	

Note: The translation of Renminbi into Hong Kong dollars was based on the rate of RMB1.00 to HK$1.11.

As at 31 December 2021, the Group has fully utilised all of the Net Proceeds.

Share Option Scheme

The Company adopted a share option scheme (the "**Share Option Scheme**") on 20 February 2019 which became effective on 15 March 2019. A summary of the principal terms of the Share Option Scheme was set out in paragraph headed "Report of the Directors — Share Option Scheme" in the 2021 Annual Report.

Events after the Reporting Period

No significant event after the year ended 31 December 2021 is noted.

Outlook and Plans

Looking forward to 2022, the Board estimates the economy in the PRC will continue to gradually improve and the finance leasing industry will be under sustainable development and have huge potential and bright prospect. Please refer to the section headed "4. Management discussion and analysis — For the year ended 31 December 2021 — Business Overview" in this Appendix II for further details.

The Group will continue to focus on its internal control and risk management based on the principles of risk prevention and asset monitoring reinforcement and strengthening internal management and improving various systems, while continuing to steadily promote its business development, expansion and diversification.

The Board will strive for new breakthroughs in terms of industry and geographic coverage by improving the corporate governance mechanism; and on the condition of compliance with the Listing Rules, strengthening its risk control, enhancing asset management capability, further forging a professional and high-quality talent team to seize development opportunities and actively develop new customers (including expanding to new industries outside of the existing customer base of the Group). The Group will also endeavour to maintain the relationship with existing customers and explore opportunities to deepen cooperation with quality customers, in order to achieve steady and long-term development of the Group's finance leasing business.

Purchase, Sale or Redemption of the Company's Listed Securities

During the year ended 31 December 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

For the year ended 31 December 2020

Business Overview

In 2020, the domestic and global economic slowdown and the negative impact of the COVID-19 epidemic on various industries led to increasing downward pressure on the economy and on continuous industrial transformation and upgrade of the finance leasing industry. As a result, the rate of development of the financial leasing industry continued to slow down. According to the statistics of China Leasing Union, as at the end of 2020, the total number of financial leasing companies in China was 12,156 (end of 2019: 12,130), increased by 0.2% year-on-year (2019: 2.9%), showing a significant decline in growth. The balance of finance leasing contracts in China amounted to approximately RMB6.50 trillion at the end of 2020 (end of 2019: RMB6.65 trillion), decreased by 2.3% year-on-year. As a result, the competition within the finance leasing industry further intensified in an already-very-competitive market.

The China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) issued the Interim Measures for the Supervision and Administration of Financial Leasing Companies* (融資租賃公司監督管理暫行辦法) in June 2020, which strengthened the requirements on the connectedness and concentration of group clients of financial leasing companies, effectively prevented and diversified business risks, and aimed to ensure the sustainable and healthy development of the industry where it could continue to transform and upgrade. As such, strengthening risk control has become a core issue for various finance leasing companies.

The domestic and international economic environment is complicated and has been changing and financial deleverage and stringent regulatory policies have been pressing ahead in the PRC, thereby tightening financial environment has become the focus. Affected by the above situation, rental defaults occurred among its certain lessees, in particular those in the healthcare industry, for which the Group prudently made provision for impairment loss of finance lease receivables under IFRS 9 — Financial Instruments. Although rental defaults have improved, as compared to 2019, it still resulted in further increase in impairment loss of finance lease receivables for the year ended 31 December 2020.

The Group will continue to pay close attention to market changes in the industries involved, adjust its business strategies in a timely manner, proactively adjust the pace of business development, prioritise prevention and risk control at an appropriate time, strengthen the project vetting committee's functions in project selection, and strive to improve so as to improve the level of asset management and reduce overall risk of assets.

Financial Review

Revenue

The Group's revenue mainly derived from finance lease income. The Group's finance leasing services included sale-leaseback and direct finance leasing.

Revenue decreased by approximately 4.9% from approximately RMB260.9 million for the year ended 31 December 2019 to approximately RMB248.0 million for the year ended 31 December 2020. Such decrease was mainly due to the decrease in new finance leasing business of the Group in 2020.

Other income, gains or losses

Other income, gains or losses, which primarily derived from (i) government grants; (ii) investment and interest income; (iii) gain on disposal of plant and equipment; and (iv) others, decreased from approximately RMB12.7 million for the year ended 31 December 2019 to approximately RMB11.9 million for the year ended 31 December 2020.

Even though (i) the government grants, which is subject to change depending on the tax payment every year, increased from approximately RMB7.6 million for the year ended 31 December 2019 to approximately RMB8.9 million for the year ended 31 December 2020; (ii) the investment and interest income increased from approximately RMB1.8 million for the year ended 31 December 2019 to approximately RMB2.7 million for the year ended 31 December 2020; and (iii) gain on disposal of plant and equipment increase from nil for the year ended 31 December 2019 to approximately RMB1,000 for the year ended 31 December 2020, they are offset by (iv) others which decreased from approximately RMB3.3 million for the year ended 31 December 2019 to approximately RMB0.2 million for the year ended 31 December 2020.

Staff costs

Staff costs primarily included employee salaries and related costs of other benefits. The staff costs decreased by approximately RMB3.2 million from approximately RMB12.7 million for the year ended 31 December 2019 to approximately RMB9.5 million for the year ended 31 December 2020. In August 2020, the Group set up a wholly-owned subsidiary located in Shenzhen. It contributed to an increase in number of staff from 28 as at 31 December 2019 to 33 as at 31 December 2020. However, despite an increase in number of staff at year end mentioned above, the weighted average number of staff decreased from 38 in 2019 to 31 in 2020. This led to the decrease in staff costs during the year. Further, portion of social insurance being waived during the year also contributed to the said decrease.

Other operating expenses

Other operating expenses primarily included rental expenses, entertainment expenses, legal and professional fees and travelling expenses. For the year ended 31 December 2020, the other operating expenses amounted to approximately RMB21.4 million (2019: approximately RMB20.0 million), representing approximately 8.6% of the total revenue of the Group (2019: approximately 7.7%).

Listing expenses

For the year ended 31 December 2019, the listing expenses amounted to approximately RMB10.3 million. There was no listing expenses in 2020. Such expenses are non-recurring in nature.

Finance cost

Finance costs primarily derived from (i) borrowings; (ii) bonds payable; (iii) bills payables; (iv) imputed interest on deposits from finance lease customers; and (v) lease liabilities. The finance costs decreased by approximately 31.0% from approximately RMB186.7 million for the year ended 31 December 2019 to approximately RMB128.8 million for the year ended 31 December 2020. The decrease in finance costs was mainly a result of the decrease in borrowing costs by approximately 24.0% from approximately RMB132.8 million for the year ended 31 December 2019 to approximately RMB100.9 million for the year ended 31 December 2020, and the decrease in the costs of bonds payable by approximately 54.1% from approximately RMB37.9 million for the year ended 31 December 2019 to approximately RMB17.4 million for the year ended 31 December 2020, which was due to the repayment of the bonds payable.

Profit(loss) for the year

The Company turned losses into profits during the year. Loss of approximately RMB84.7 million for the year ended 31 December 2019 turned into profit of approximately RMB16.6 million for the year ended 31 December 2020. The net profit margin for the year ended 31 December 2020 was 6.7%, representing a significant improvement as compared to that of -32.5% for the year ended 31 December 2019, which was mainly due to less impairment loss provided for the finance lease receivables.

Dividend

The Board did not recommend the payment of any final dividend to shareholders of the Company for the year ended 31 December 2020 (2019: nil).

Liquidity, financial resources and capital resources

As at 31 December 2020, the cash and cash equivalents amounted to approximately RMB35.7 million (31 December 2019: approximately RMB257.6 million). Working capital (current assets less current liabilities) and the total equity of the Group amounted to approximately RMB448.1 million (31 December 2019: approximately RMB1,107.6 million) and approximately RMB1,195.5 million (31 December 2019: approximately RMB1,183.1 million), respectively.

As at 31 December 2020, the Group's borrowings due within one year amounted to approximately RMB930.1 million (31 December 2019: approximately RMB23.7 million) and the Group's borrowings due after one year amounted to approximately RMB558.9 million (31 December 2019: approximately RMB1,374.0 million).

As at 31 December 2020, the Group's bonds issued due within one year was nil (31 December 2019: approximately RMB91.2 million) and the Group's bonds issued due after one year was nil (31 December 2019: approximately RMB189.0 million).

As at 31 December 2020, the gearing ratio (dividing the total indebtedness by total equity and indebtedness as at the end of the period) was approximately 55.5% (31 December 2019: approximately 58.6%). Such decrease was mainly due to the decrease in the borrowings and bonds issued based on the scale of business.

Finance lease receivables

Finance lease receivables consisted of (i) gross amount of finance lease receivables; (ii) unearned finance income; and (iii) allowances for impairment losses. As at 31 December 2020, the respective carrying amounts of such components of the finance receivables amounted to (i) approximately RMB3,445.1 million; (ii) approximately RMB453.2 million; and (iii) approximately RMB287.9 million (as at 31 December 2019, the respective carrying amounts of such components of the finance receivables amounted to (i) approximately RMB3,371.6 million; (ii) approximately RMB476.2 million; and (iii) approximately RMB208.8 million).

The finance lease receivables increased by approximately 0.6% from approximately RMB2,686.6 million for the year ended 31 December 2019 to RMB2,703.9 million for the year ended 31 December 2020, mainly due to an increase in the gross amount of finance lease receivables.

The allowances for impairment losses increased by approximately 37.9% from approximately RMB208.8 million as at 31 December 2019 to approximately RMB287.9 million as at 31 December 2020.

Certain customers of the Company failed to repay principals and/or interests, accordingly the Group strictly accessed the impairment allowance in accordance with IFRS. This attributes to an increase in allowance for impairment losses.

The domestic and international economic environment is complicated and has been changing and financial deleverage and stringent regulatory policies have been pressing ahead in the PRC, thereby tightening financial environment has become the focus. Affected by the above situation, rental defaults occurred among its certain lessees, in particular those in the healthcare industry, for which the Group prudently made provision for impairment loss of finance lease receivables under IFRS 9 — Financial Instruments, resulting in significant impact on the results of the Group for the year ended 31 December 2020.

Under such background, on the basis of complying the International Financial Reporting Standards, the Group makes a relatively reasonable estimation on the recovery of future funds from a prudent perspective, and provided appropriate amount of impairment allowance. In case that late payment occurs on lessees, the Group will adopt active on-site collection or legal actions. Some outstanding loans have been collected to avoid the further increase of impairment allowance impairment allowance. Further, the Company also deploys different means to recover impaired finance lease receivables. Please refer to the Company's announcement dated 27 May 2020 for further details.

Finance lease commitments

As at 31 December 2020, the Group had no finance lease commitments (31 December 2019: nil).

Employees and remuneration policy

As at 31 December 2020, the Group employed 33 full time employees (31 December 2019: 28) for its principal activities. Employees' benefits expenses (including Directors' emoluments) amounted to approximately RMB9.5 million for the year ended 31 December 2020 (2019: approximately RMB12.7 million). The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to the performance of the Group, the performance of individuals and prevailing market rates. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the share option scheme adopted by the Company.

Risk Management

As a finance leasing company serving different industries, the Group assumes various risks in its business operations, including credit, liquidity, marketing, compliance, legal, operational and reputational risks, among which credit risk is its primary exposure. The Group has developed a comprehensive risk management system and controls risks through measures including due diligence on customers, independent information review and a multi-level approval process.

The Group strives to balance business development, risk management and operation efficiency. The Group has established comprehensive risk management and internal control processes to deal with various risks relating to its business. Its risk management processes are tailored to the characteristics of its business operations, with a focus on managing risks through comprehensive customer due diligence, independent information review and multi-level approval process. Its risk management processes also include a continuous review process after the finance leasing is approved. The asset management team reviews the leased assets on a regular basis, including performing on-site visits to inspect the status of the leased asset. This continuous review process enables the Group to identify any potential default of its customers and take remedial actions to enhance the security of its assets at an early stage.

The Group measures and monitors the asset quality of its finance lease receivables by voluntarily adopting a five-category classification with reference to guidelines promulgated by the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) relating to asset quality for financial institutions under its regulation as follows:

Pass. There is no sufficient reason to doubt that the lease payments will not be paid by the lessee in full on a timely basis. Pass asset has certain characteristics, for example, the lease payments have always been repaid in full on a timely manner or overdue for less than or equal to 90 days.

Special Mention. Even though the lessee has been able to pay the lease payments in a timely manner, there are some factors that could adversely affect its ability to pay, such as that the financial position of the lessee has worsened or its net cash flow has become negative, but there are sufficient guarantees or collaterals underlying the finance lease agreement. Special Mention asset has certain characteristics, for example, the payments have been overdue for more than 90 days but less than or equal to 150 days.

Substandard. The lessee's ability to pay is in obvious question as it is unable to make its payments in full with its operating revenue, and the Group is likely to incur losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Substandard asset has certain characteristics, for example, the lease payments have been overdue for more than 150 days but less than or equal to 210 days.

Doubtful. The lessee's ability to pay is in absolute question as it is unable to make lease payments in full, and the Group is likely to incur significant losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Doubtful asset has certain characteristics, for example, the lease payments have been overdue for more than 210 days but less than or equal to 270 days.

Loss. After taking all possible steps or going through all necessary legal procedures, lease payments remain overdue or only a very limited portion has been recovered. Loss asset has certain characteristics, for example, the lease payments have been overdue for more than 270 days.

At the same time, the Group assesses its provisions using an appropriate expected credit loss model based on the relevant requirements of IFRS and its internal provision procedures and guidelines upon consideration of factors such as the nature and characteristics of its industry-specific customers, credit record, economic conditions and trends, history of write-offs, payment delinquencies, the value of the assets underlying the leases and the availability of collateral or guarantees. The Group will regularly assess the expected credit loss model in accordance to actual loss of financial assets and adjust when necessary.

Contingent Liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities (31 December 2019: Nil).

Use of Proceeds from the Global Offering

The Company was listed on the Main Board of the Stock Exchange on 15 March 2019. The actual Net Proceeds from the Global Offering were approximately HK$354.3 million (equivalent to approximately RMB319.2 million). As disclosed in the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in the Prospectus, the Company intended to use the Net Proceeds as follows:

1. approximately 50% to apply towards the Group's business operation expansion in healthcare industry;

2. approximately 40% to apply towards the Group's business operation expansion in aviation and public infrastructure industries; and

3. approximately 10% to apply towards the Group's general working capital.

The details of the use of Net Proceeds and the expected timeline for utilising its remaining balance are set out as follows:

As at 31 December 2020

Use of Net Proceeds	**Planned amount use of the Net Proceeds** *(RMB' million)* *(Note 1)*	**Utilised amount as at 31 December 2020** *(RMB' million)*	**Unutilised amount as at 31 December 2020** *(RMB' million)*	**Expected timeline for utilising the unutilised Net Proceeds** *(Note 2)*
The Group's business operation expansion in healthcare industry	159.6	128.0	31.6	Expected to be fully utilised in or before the end of 2021
The Group's business operation expansion in aviation and public infrastructure industries	127.7	127.7	—	Fully utilised in 2020
The Group's general working capital	31.9	31.0	0.9	Expected to be fully utilised in or before the end of 2021
Total	319.2	286.7	32.5	

As at 31 December 2019

Use of Net Proceeds	**Planned amount use of the Net Proceeds** *(RMB' million)* *(Note 1)*	**Utilised amount as at 31 December 2019** *(RMB' million)*	**Unutilised amount as at 31 December 2019** *(RMB' million)*	**Expected timeline for utilising the unutilised Net Proceeds** *(Note 2)*
The Group's business operation expansion in healthcare industry	159.6	128.0	31.6	Expected to be fully utilised in or before the end of 2021
The Group's business operation expansion in aviation and public infrastructure industries	127.7	124.5	3.2	Expected to be fully utilised in or before the end of 2021
The Group's general working capital	31.9	0.0	31.9	Expected to be fully utilised in or before the end of 2021
Total	319.2	252.5	66.7	

Notes:

1. The translation of Renminbi into Hong Kong dollars was based on the rate of RMB1.00 to HK$1.11.

2. The expected timeline for utilising the remaining Net Proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of the market conditions.

As at 31 December 2020, the Group has not fully utilised the planned Net Proceeds mainly due to the negative impact of the COVID-19 epidemic on economic environment, the market and the relevant industries. Such changes posed the slowdown of the development of the financial leasing industry as well as, the pace of business development of the Company and thus the utilisation of its general working capital. Despite the foregoing, the Company will continue to actively look for prospective projects to participate and invest in order to utilise the Net Proceeds in accordance with the manner disclosed above.

Apart from the above, the Directors are not aware of any material change or delay to the planned use of proceeds.

Events After the Reporting Period

References are made to the announcements of the Company dated 26 February 2020, 22 January 2021 and 10 March 2021. On 22 January 2021 (after trading hours), Baoyin Alliance Limited (as seller), an indirect wholly-owned subsidiary of the Company, and Avjet Global Sales, LLC (as buyer) entered into a sale and purchase agreement regarding one Gulfstream GV-SP (G550) aircraft (the "**Aircraft**") at a consideration of US$23.2 million. Delivery of the Aircraft took place on 28 January 2021. Please refer to the said announcements for more details about disposal of the Aircraft and the termination of the corresponding finance lease agreement.

Save as disclosed in the 2020 Annual Report, the Group does not have any material subsequent event after 31 December 2020 up to the date of the 2020 Annual Report.

Outlook and Plans

In 2020, the COVID-19 epidemic has brought economic globalisation into counter-current, and profound adjustments have taken place in international economy, technology, culture, security, and political environment. The international business of finance leasing companies is also facing greater risks. On the other hand, during the year, the regulatory policies of the finance leasing industry has been improved, which provides clearer guidance for the sustainable development of this increasingly competitive industry.

Looking forward to 2021, as the COVID-19 vaccines become available and their inoculation rate rises, the Board estimates the pace of recovery of economic activities will speed up accordingly. While finance leasing companies become more cautious in managing risks, they will undergo in-depth transformation and adjustments and at the same time search for new momentum to develop in an uncertain environment. In response to the changes in external business environment, the Group will base on the principles of risk prevention and asset monitoring reinforcement and focus on strengthening internal management and improving various systems as its main focuses. On the basis of turning losses into profits, the Group shall continue to steadily promote its business development.

The Board will strive for new breakthroughs in terms of industry and geographic coverage by, improving the corporate governance mechanism; and on the condition of compliance of the Listing Rules, increasing the risk control level, enhancing asset management capability, further forging a professional and high-quality talent team to seize the development opportunity and actively develop new customers. The Group will also pay attention to maintain the relationship with existing customers and explore deepen cooperation with quality customers, in order to achieve steady and long-term development of the Group.

For the year ended 31 December 2019

Business Overview

The Company was successfully listed on the Main Board of the Stock Exchange on 15 March 2019. 2019 is the first year following the Group's listing and a critical year for the Group's development and progress, in that year, the global economic growth continued to slow down, and was still at the in-depth adjustment stage following the international financial crisis. With the rapid changing global trend, there was significant increase in fluctuation sources and risk. Facing the complex environment with significant increase in both domestic and overseas risks and challenges, China is currently under the crucial stage for structural reform, industrial shift and system optimization, thus experiencing greater pressure on economic downturn. In 2019, China's gross domestic product was RMB99.1 trillion, year-on-year growth rate was narrowed to 6.1%, a decrease by 0.6 percentage points from 2018.

In 2019, with the increasing pressure on economic downturn and continuous industrial transformation and upgrade, the development of the financial leasing industry continued to slow down. According to the statistics of China Leasing Union, as at the fourth quarter of 2019, the total number of financial leasing companies in China was 12,130, year-on-year growth rate was 2.9%, showing a significant narrowing of growth rate. The balance of financial leasing contracts in China amounted to approximately RMB6.65 trillion, increased by 0.1% year-on-year.

The domestic and international economic environment is complicated and ever-changing. As the PRC presses ahead financial deleverage and stringent regulatory policies particularly, strain on financial environment has become the focus. Affected by the above situation, rental defaults occurred among certain lessees of the Company, particularly those in the healthcare industry, for which the Group prudently made provision for impairment loss of finance lease receivables under IFRS 9 – Financial Instruments, resulting in significant impact on the financial performance of the Group for the year ended 31 December 2019.

Through closely monitoring the market changes of the industry which the Group is engaged in, the Group timely adjusted its business strategy, proactively adjusted the pace of business development as and when appropriate while giving priority to risk prevention and control, and strengthened the function of the project vetting committee of the Company in project selection so as to improve the standard of asset management and reduce overall risk of assets.

Financial Review

Revenue

The Group's revenue mainly derived from (i) finance lease income; and (ii) advisory fee income arising from advisory services provided to its finance leasing customers. The Group's finance leasing services included sale-leaseback and direct finance leasing.

Revenue decreased by approximately 27.1% from approximately RMB358.1 million for the year ended 31 December 2018 to approximately RMB260.9 million for the year ended 31 December 2019. Such decrease was mainly due to the decrease in new finance leasing business of the Group in 2019. For the year ended 31 December 2019, its finance lease income amounted to approximately RMB260.9 million (2018: approximately RMB354.6 million). The Group's advisory services primarily consist of finance leasing advisory services. For the year ended 31 December 2019, no advisory fee income was generated (2018: approximately RMB3.5 million).

Other income, gains or losses

Other income, gains or losses which primarily derived from (i) government grants; (ii) bank interest income; (iii) entrusted loan income; and (iv) compensation for early termination of finance lease arrangement, decreased by approximately RMB1.5 million from approximately RMB14.2 million for the year ended 31 December 2018 to approximately RMB12.7 million for the year ended 31 December 2019.

In particular, (i) the government grants, which is subject to change depending on the tax payment every year, increased by approximately RMB0.3 million from approximately RMB7.3 million for the year ended 31 December 2018 to approximately RMB7.6 million for the year ended 31 December 2019; (ii) the bank interest income increased by approximately RMB1.0 million from approximately RMB0.6 million for the year ended 31 December 2018 to approximately RMB1.6 million for the year ended 31 December 2019; (iii) the entrusted loan income decreased by approximately RMB0.8 million from approximately RMB0.8 million for the year ended 31 December 2018 to nil for the year ended 31 December 2019 as such income had been settled; and (iv) the compensation for early termination of finance lease arrangement of approximately RMB5.5 million was received due to an early settlement of finance lease business occurred in the first quarter of 2018.

Staff costs

Staff costs primarily included employee salaries and related costs of other benefits. The staff costs increased by less than RMB0.1 million from approximately RMB12.6 million for the year ended 31 December 2018 to approximately RMB12.7 million for the year ended 31 December 2019, which was resulted from the salary adjustment.

Other operating expenses

Other operating expenses primarily included rental expenses, entertainment expenses, legal and professional fees and travelling expenses. For the year ended 31 December 2019, the other operating expenses amounted to approximately RMB20.0 million (2018: approximately RMB21.2 million), representing approximately 7.7% of the total revenue of the Group (2018: approximately 5.9%).

Listing expenses

For the year ended 31 December 2019, the listing expenses amounted to approximately RMB10.3 million (2018: approximately RMB10.8 million). Such expenses are non-recurring in nature.

Finance cost

Finance cost primarily derived from (i) borrowings; (ii) bonds payable; (iii) imputed interest on deposits from finance lease customers; and (iv) interest on lease liabilities. The finance cost decreased by approximately 22.7% from approximately RMB241.6 million for the year ended 31 December 2018 to approximately RMB186.7 million for the year ended 31 December 2019.

In particular, (i) the borrowing costs decreased by approximately 16.1% from approximately RMB158.2 million for the year ended 31 December 2018 to approximately RMB132.8 million for the year ended 31 December 2019; (ii) the costs of bonds payable decreased by approximately 46.5% from approximately RMB70.9 million for the year ended 31 December 2018 to approximately RMB37.9 million for the year ended 31 December 2019, which was due to the maturity of three bonds payable; and (iii) the Group incurred imputed interest on deposits from finance lease customers of RMB15.6 million for the year ended 31 December 2019, representing an increase of approximately 25.8% from approximately RMB12.4 million for the year ended 31 December 2018, due to the increase in daily average amortised cost of deposits from finance lease customers. The amortised cost of deposits from finance leasing customers gradually increased with the constant amortisation since its initial recognition, which resulted in the gradual increase in interest expenses recognised; and (iv) the Group has applied IFRS 16 – Leases since 1 January 2019, pursuant to which the Group incurred interest expenses on lease liabilities recognised of approximately RMB0.5 million.

Profit/loss for the year

Profit for the year decreased by approximately RMB125.3 million from the profit of approximately RMB40.6 million for the year ended 31 December 2018 to the loss of approximately RMB84.7 million for the year ended 31 December 2019. The net profit margin for the year ended 31 December 2019 was -32.5%, representing a significant drop as compared to that of 11.3% for the year ended 31 December 2018, which was due to the sizable impairment allowance provided for the finance lease receivables and the decrease in finance lease income.

Liquidity, financial resources and capital resources

As at 31 December 2019, the cash and cash equivalents amounted to approximately RMB257.6 million (31 December 2018: approximately RMB391.3 million). Working capital (current assets less current liabilities) and the total equity of the Group amounted to approximately RMB1,107.6 million (31 December 2018: net current liability of approximately RMB316.6 million) and approximately RMB1,183.1 million (31 December 2018: approximately RMB942.0 million), respectively.

As at 31 December 2019, the Group's borrowings due within one year amounted to approximately RMB23.7 million (31 December 2018: approximately RMB724.4 million) and the Group's borrowings due after one year amounted to approximately RMB1,374.0 million (31 December 2018: approximately RMB1,568.3 million).

As at 31 December 2019, the Group's bonds issued due within one year amounted to approximately RMB91.2 million (31 December 2018: approximately RMB500.9 million) and the Group's bonds issued due after one year amounted to approximately RMB189.0 million (31 December 2018: RMB276.0 million).

As at 31 December 2019, the gearing ratio (dividing the total indebtedness by total equity and indebtedness as at the end of the period) was approximately 58.6% (31 December 2018: approximately 76.5%). Such decrease was mainly due to the decrease in the borrowings and bonds issued based on the scale of business.

The Group's risk management department is responsible for the managing and monitor of the Group's market risk, credit risk and liquidity risk to ensure appropriate measures are implemented on a timely and effective manner. Policies and details of which are set out on pages 107 to 115 in Note 33 to the Consolidated Financial Statements of the 2019 Annual Report.

Finance lease receivables

Finance lease receivables consisted of (i) gross amount of finance lease receivables; (ii) unearned finance income; and (iii) allowances for impairment losses. Their respective carrying amounts of such components of the finance receivables amounted to (i) approximately RMB3,371 million; (ii) approximately RMB476.2 million; and (iii) approximately RMB208.8 million. The finance lease receivables decreased by approximately 27.7% from approximately RMB3,714.2 million for the year ended 31

December 2018 to approximately RMB2,686.6 million for the year ended 31 December 2019, mainly due to the settled finance lease receivables and increase in allowances for impairment losses as compared to that in 2018.

The allowances for impairment losses significantly increased by approximately 207.1% from approximately RMB68.0 million as at 31 December 2018 to approximately RMB208.8 million as at 31 December 2019.

Certain customers of the Company failed to repay principals and/or interests, the Group strictly accessed the impairment allowance in accordance with IFRS. Due to such direct cause, a substantial increase in allowance for impairment losses was recorded.

In 2019, the PRC in general was undergoing an industrial transmission period. As a result, the overall domestic economy growth has slowed down, leading to significant changes in certain customers' operating environment. In addition, deleverage remains the dominant policy for the PRC's financial market over the past year. Capital supply from market has decreased while the price increased. In particular, some regional small and medium-sized banks have encountered major risks and uncertainties. Therefore, the access to external financing is becoming tighter and tighter. Given the multiple effects from market environment and financing channels, certain lessees suffered from cash flow shortage.

Under such background, on the basis of complying the International Financial Reporting Standards, the Group makes a relatively reasonable estimation on the recovery of future funds from a prudent perspective, and provided appropriate amount of impairment allowance. In case that late payment occurs on lessees, the Group will adopt active on-site collection or legal actions. Some results have been achieved to avoid the further increase of impairment allowance.

Finance lease commitments

As at 31 December 2019, the Group had no finance lease commitments (31 December 2018: Nil).

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

During the financial year ended 31 December 2019, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

Charge of Group's Assets

Save as disclosed in the prospectus of the Company dated 28 February 2019, the Group did not have any charges on group assets during the financial year ended 31 December 2019.

Future Plans for Material Investments and Capital Assets

As at 31 December 2019, the Group did not have other plans for material investments and capital assets. The Group may look into business and investment opportunities in different business areas and consider whether any asset disposals, asset acquisitions, business rationalisation, business divestment, fund raising, restructuring of the business and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group.

Foreign Exchange Risk

The Group receives majority of payments from customers in Renminbi and majority of the Group's revenue and costs are also denominated in Renminbi. The Group may need to convert and remit Renminbi into foreign currencies for the payment of dividends, if any, to holders of shares of the Company. The Group assets and liabilities are mainly denominated in Renminbi, US dollar and Hong Kong dollar.

The Group is therefore exposed to foreign exchange risk arising from currency exposures, primarily in respect to the Renminbi. The management closely monitors the foreign exchange movements and determines the appropriate hedging activities when necessary.

Employees and Remuneration Policy

As at 31 December 2019, the Group employed 28 full time employees (31 December 2018: 41) for its principal activities. Employees' benefits expenses (including Directors' emoluments) amounted to approximately RMB12.7 million for the year ended 31 December 2019 (2018: approximately RMB12.6 million). The Group recognises the importance of retaining high calibre and competent staff and continues to provide remuneration packages to employees with reference to the performance of the Group, the performance of individuals and prevailing market rates. Other various benefits, such as medical and retirement benefits, are also provided. In addition, share options may be granted to eligible employees of the Group in accordance with the terms of the share option scheme adopted by the Company.

Risk Management

As a finance leasing company serving different industries, the Group assumes various risks in its business operations, including credit, liquidity, marketing, compliance, legal, operational and reputational risks, among which credit risk is its primary exposure. The Group has developed a comprehensive risk management system and controls risks through measures including due diligence on customers, independent information review and a multi-level approval process.

The Group strives to balance business development, risk management and operation efficiency. The Group has established comprehensive risk management and internal control processes to deal with various risks relating to its business. Its risk management processes are tailored to the characteristics of its business operations, with a focus on managing risks through comprehensive customer due diligence, independent information review and multi-level approval process. Its risk management processes also include a continuous review process after the finance leasing is approved. The asset management team reviews the leased assets on a regular basis, including performing on-site visits to inspect the status of the leased asset. This continuous review process enables the Group to identify any potential default of its customers and take remedial actions to enhance the security of its assets at an early stage.

The Group measures and monitors the asset quality of its finance lease receivables by voluntarily adopting a five-category classification with reference to guidelines promulgated by the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會) relating to asset quality for financial institutions under its regulation as follows:

Pass. There is no sufficient reason to doubt that the lease payments will not be paid by the lessee in full on a timely basis. Pass asset has certain characteristics, for example, the lease payments have always been repaid in full on a timely manner or overdue for less than or equal to 90 days.

Special Mention. Even though the lessee has been able to pay the lease payments in a timely manner, there are some factors that could adversely affect its ability to pay, such as that the financial position of the lessee has worsened or its net cash flow has become negative, but there are sufficient guarantees or collaterals underlying the finance lease agreement. Special Mention asset has certain characteristics, for example, the payments have been overdue for more than 90 days but less than or equal to 150 days.

Substandard. The lessee's ability to pay is in obvious question as it is unable to make its payments in full with its operating revenue, and the Group is likely to incur losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Substandard asset has certain characteristics, for example, the lease payments have been overdue for more than 150 days but less than or equal to 210 days.

Doubtful. The lessee's ability to pay is in absolute question as it is unable to make lease payments in full, and the Group is likely to incur significant losses notwithstanding the enforcement of any guarantees or collaterals underlying the finance lease agreement. Doubtful asset has certain characteristics, for example, the lease payments have been overdue for more than 210 days but less than or equal to 270 days.

Loss. After taking all possible steps or going through all necessary legal procedures, lease payments remain overdue or only a very limited portion has been recovered. Loss asset has certain characteristics, for example, the lease payments have been overdue for more than 270 days.

At the same time, the Group assesses its provisions using an appropriate expected credit loss model based on the relevant requirements of IFRS and its internal provision procedures and guidelines upon consideration of factors such as the nature and characteristics of its industry-specific customers, credit record, economic conditions and trends, history of write-offs, payment delinquencies, the value of the assets underlying the leases and the availability of collateral or guarantees. The Group will regularly assess the expected credit loss model in accordance to actual loss of financial assets and adjust when necessary.

Contingent Liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities (31 December 2018: Nil).

Use of Proceeds from the Global Offering

The actual Net Proceeds raised from the Global Offering was approximately HK$354.3 million (RMB319.2 million). As disclosed in the section headed "Future Plans and Use of Proceeds — Use of Proceeds" in the Prospectus, the Company intended to use the Net Proceeds as follows:

1. approximately 50% to apply towards the Group's business operation expansion in healthcare industry;

2. approximately 40% to apply towards the Group's business operation expansion in aviation and public infrastructure industries; and

3. approximately 10% to apply towards the Group's general working capital.

The use of Net Proceeds and the expected timeline for utilising its remaining balance, details of which are set out as follows:

Use of Net Proceeds	**Planned amount use of the Net Proceeds** *(RMB' million)* *(Note 1)*	**Utilised amount as at 31 December 2019** *(RMB' million)*	**Unutilised amount as at 31 December 2019** *(RMB' million)*	**Expected timeline for utilising the unutilised Net Proceeds** *(Note 2)*
The Group's business operation expansion in healthcare industry	159.6	128.0	31.6	Expected to be fully utilised in or before the end of 2021
The Group's business operation expansion in aviation and public infrastructure industries	127.7	124.5	3.2	Expected to be fully utilised in or before the end of 2021
The Group's general working capital	31.9	0.0	31.9	Expected to be fully utilised in or before the end of 2021
Total	319.2	252.5	66.7	

Notes:

1. The translation of Renminbi into Hong Kong dollars was based on the rate of RMB1.00 to HK$1.11.

2. The expected timeline for utilising the remaining Net Proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of the market conditions.

As at 31 December 2019, the Group has not fully utilised the planned Net Proceeds mainly due to the global economic growth continued to slow down as well as the recent changes in the economic environment, the market and the relevant industries. Such changes posed the slowdown of the development of the financial leasing industry, the pace of business development of the Company and thus the utilisation of its general working capital. For further details, please refer to the announcements of the Company dated 27 March 2020 and 27 May 2020. Despite the foregoing, the Company will continue to actively look for prospective projects to participate and invest in order to utilise the Net Proceeds in accordance with the manner disclosed above.

Apart from the above, the Directors are not aware of any material change or delay to the planned use of proceeds.

Events After the Reporting Period

Disposal of Aircraft and Termination of Finance Lease Agreement

On 30 August 2016, Baoyin Alliance Limited (友聯寶音有限公司) (previously known as Nanshan Baoyin Limited (南山寶音有限公司)), a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company (the "**Lessor**") and Sincere Property Investments Limited (the "**Lessee**") entered into, among others, the Finance Lease Agreement, pursuant to which (i) the Lessee agreed to assign a Gulfstream GV-SP (G550) aircraft (the "**Aircraft**") under the name of the Lessor; and (ii) the Lessor agreed to lease the Aircraft to the Lessee for a term of 84 months. As at 26 February 2020, the overdue rental fee was approximately RMB34.9 million in accordance with the terms and conditions of the Finance Lease Agreement. In view of the recent changes in the market conditions, and following negotiations between the Lessee and Lessor, they agreed to dispose of the Aircraft and that the sale proceeds thereof shall be used to settle, among others, the outstanding sum under the Finance Lease Agreement. Accordingly, on 26 February 2020:

(a) Bank of Utah, a corporation organised and existing under the laws of the State of Utah of United States (the "**Seller**"), as owner trustee and for the benefit of the Lessor and the Lessor, entered into the Aircraft sale and purchase agreement with the Buyer, pursuant to which the Seller intends to sell and the Sloan and SMS Trust (the "**Buyer**") intends to purchase the Aircraft for the consideration of approximately US$30 million.

(b) the Lessor, entered into the termination agreement, with the Lessee, pursuant to which the Lessor and the Lessee shall terminate the Finance Lease Agreement subject to the terms and conditions as set out therein.

Further details of the disposal of aircraft and termination of finance lease agreement were set out in the announcement dated 26 February 2020.

Save as aforementioned, the Group does not have any material event subsequent to 31 December 2019 and up to the date of the 2019 Annual Report.

Outlook and Plans

In 2019, economic globalisation experienced setbacks and the global financial market had been volatile, resulting in further downward pressure to the economy. In response to the changes in external business environment, the Group steadily promoted its business development based on the principles of risk prevention and asset monitoring reinforcement with focus on strengthening internal management and improving various systems.

Looking ahead to 2020, since the beginning of the year, the outbreak of the Novel Coronavirus Pneumonia (COVID-19) has spread worldwide. The global economic outlook is extremely grim. Also, with the further reform of interest rate marketisation and the continuous advancement of exchange rate formation mechanism, competition in the financial leasing industry has become increasingly fierce. The Board will continue to improve the corporate governance mechanism, and strive for new breakthroughs in terms of industry and geographic coverage by, subject to the Listing Rules, increasing the risk control level, enhancing asset management capability, further forging a professional and well-qualified talent team to seize the development opportunity and actively develop new customers. The Group will also pay attention to maintain the relationship with existing customers and explore deepen cooperation with quality customers, in order to achieve steady and long-term development of the Group.

The following is an illustrative and unaudited pro forma financial information of International Alliance Financial Leasing Co., Ltd (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Existing Group**") and Yantai Nanshan University (the "**Target College**") (the Existing Group and the Target College hereinafter collectively referred to as the "**Enlarged Group**") (the "**Unaudited Pro Forma Financial Information**"), which have been prepared on the basis as set out in the notes below to illustrate the effect of the proposed acquisition of 70% equity interest in the Target College (the "**Acquisition**").

The Unaudited Pro Forma Financial Information has been prepared in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purpose of illustrating the effect of the Acquisition as if the Acquisition had been completed on 31 December 2021 for the unaudited pro forma consolidated statement of financial position and 1 January 2021 for the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows respectively.

The Unaudited Pro Forma Financial Information has been prepared by directors of the Company (the "**Directors**") to provide information of the Existing Group upon completion of the Acquisition. It is prepared for illustrative purpose only and based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group following the completion of the Acquisition or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information as set out in the Company's published annual report for the year ended 31 December 2021, the accountants' report of the Target College as set out in Appendix I of the circular and other financial information included elsewhere in the circular.

1. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Existing Group as at 31 December 2021	The Target College as at 31 March 2022	Pro forma adjustments			Unaudited Pro forma of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current assets						
Property and equipment	453	809,946		20,979		831,378
Right-of-use assets	763	77,642		386,705		465,110
Deposits paid for acquisition of property and equipment	—	1,306				1,306
Investment in a subsidiary	—	—	536,948	(536,948)		—
Intangible assets	1,442	—		33,734		35,176
Finance lease receivables	994,471	—				994,471
Deferred tax assets	94,964	—				94,964
	1,092,093	888,894				2,422,405
Current assets						
Inventories	—	2,456				2,456
Finance lease receivables	1,025,489	—				1,025,489
Financial asset at fair value through profit or loss	48,000	—				48,000
Trade and other receivables	29,130	3,369				32,499
Amount due from a shareholder	—	69,787				69,787
Amounts due from fellow subsidiaries	—	11				11
Bank balances and cash	241,822	5,435	(35,000)		(11,552)	200,705
	1,344,441	81,058				1,378,947
Current liabilities						
Trade, bills and other payables	101,934	92,218				194,152
Deposits from finance lease customers	57,709	—				57,709
Lease liabilities	678	8,115				8,793
Consideration payable	—	—	357,286			357,286
Notes payables	—	11,296				11,296
Contract liabilities	—	150,057				150,057
Amounts due to fellow subsidiaries	—	14,034				14,034
Income tax payables	17,219	—				17,219
Deferred income	13,040	—				13,040
Borrowings	169,920	—				169,920
	360,500	275,720				993,506
Net current assets (liabilities)	983,941	(194,662)				385,441

	The Existing Group as at 31 December 2021	The Target College as at 31 March 2022	Pro forma adjustments			Unaudited Pro forma of the Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	
Non-current liabilities						
Deposits from finance lease customers	162,196	—				162,196
Deferred income	14,404	—				14,404
Lease liabilities	—	32,241				32,241
Consideration payable	—	—	144,662			144,662
Borrowings	625,960	—				625,960
	802,560	32,241				979,463
	1,273,474	661,991				1,828,383
Capital and reserves						
Share capital	10	200,000		(200,000)		10
Reserves	1,273,464	461,991		(226,553)	(11,552)	1,497,350
	1,273,474	661,991				1,497,360
Non-controlling interests	—	—		331,023		331,023
Total equity	1,273,474	661,991				1,828,383

2. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2021

	The Existing Group	**The Target College**			**Pro forma adjustments**				**The Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 7)*	*(Note 8)*	*(Note 9)*	
Revenue	231,843	356,497			(5,186)				583,154
Cost of services	—	(226,514)					(17,742)		(244,256)
Gross profit	231,843	129,983							338,898
Other income, gains or losses	16,579	—	235,438			20,932			272,949
Other income	—	18,975				(18,975)			—
Other gain, net	—	1,957				(1,957)			—
Finance costs	(89,793)	(5,340)			5,186				(89,947)
Selling and distribution expenses	—	(20,622)					(54)		(20,676)
Administrative expenses	—	(22,924)				(50,111)	(382)		(73,417)
Net exchange losses	(317)	—							(317)
Staff costs	(11,124)	—				11,124			—
Other operating expenses	(27,435)	—		(11,552)		38,987			—
Impairment losses reversed on financial assets	3,103	—							3,103
Profit before tax	122,856	102,029							430,593
Income tax expense	(43,957)	—							(43,957)
Profit for the year	78,899	102,029							386,636
Other comprehensive expense:									
Item that may be reclassified subsequently to profit or loss:									
Exchange differences arising on translation of financial statement of foreign operations	(875)	—							(875)
Total comprehensive income for the year	78,024	102,029							385,761
Profit attributable to:									
Owners of the parent	78,024	102,029	235,438	(11,552)			(18,178)	(25,155)	360,606
Non-controlling interests	—	—						25,155	25,155
	78,024	102,029							385,761

3. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS OF THE ENLARGED GROUP FOR THE YEAR ENDED 31 DECEMBER 2021

	The Existing Group	The Target College	Pro forma adjustments					The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 8)*	
OPERATING ACTIVITIES								
Profit before taxation	122,856	102,029		235,438	(11,552)		(18,178)	430,593
Adjustments for:								
Depreciation of property and equipment	1,185	34,682					1,302	37,169
Depreciation of right-of-use assets	1,305	1,209					11,489	14,003
Amortisation of intangible assets	352	—					5,387	5,739
Loss (gain) on disposal of property, plant and equipment	14	(66)						(52)
Gain on bargain purchase, net of expenses	—	—		(235,438)	11,552			(223,886)
Investment and interest income	(5,282)	—						(5,282)
Net exchange loss	317	—						317
Finance costs	89,793	5,340				(5,186)		89,947
Impairment losses reversed on financial assets	(3,103)	—						(3,103)
Bank interest income	—	(231)						(231)
Operating cash flow before movements in working capital	207,437	142,963						345,214
Decrease in inventories	—	826						826
Decrease in finance lease receivables	713,107	—				(84,016)		629,091
Decrease in financial asset at fair value through profit or loss	2,457	—						2,457
Increase in trade and other receivables	(22,656)	(858)						(23,514)
(Decrease) increase in trade, bills and other payables	(68,108)	6,503						(61,605)
Increase in notes payables	—	1,768						1,768
Increase in contract liabilities	—	36,171						36,171
Increase in deferred income	2,624	—						2,624
Decrease in amounts due from fellow subsidiaries	—	(314)						(314)
Increase in deposits from finance lease customers	3,417	—						3,417
Cash generated from operations	838,278	187,059						936,135
Income tax paid	(39,637)	—						(39,637)
Interest paid	(2,314)	—						(2,314)
NET CASH FROM OPERATING ACTIVITIES	796,327	187,059						894,184

	The Existing Group	The Target College	Pro forma adjustments					The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	*(Note 8)*	
INVESTING ACTIVITIES								
Interest income received	5,282	231						5,513
Purchase of property and equipment	(1,556)	(211,846)						(213,402)
Proceeds from disposal of property and equipment	3	200						203
Purchase of right-of-use assets	—	(17,492)						(17,492)
Withdrawal from restricted bank balances	174,595	9,350						183,945
Placement of restricted bank balances	(101,971)	(7,028)						(108,999)
Advance to a shareholder	—	(771,921)						(771,921)
Acquisition of a subsidiary	—	—	(405,900)					(405,900)
Repayment from a shareholder	—	996,341						996,341
NET CASH FROM (USED IN) INVESTING ACTIVITIES	76,353	(2,165)						(331,712)
FINANCING ACTIVITIES								
Repayments to fellow subsidiaries	—	(50,282)						(50,282)
Proceeds from borrowings	626,000	—						626,000
Repayments of borrowings	(1,276,122)	(84,016)				84,016		(1,276,122)
Repayments of lease liabilities	(1,575)	—						(1,575)
Interest paid for borrowings	(110,845)	(5,186)				5,186		(110,845)
Interest paid for lease liabilities	(314)	—						(314)
NET CASH USED IN FINANCING ACTIVITIES	(762,856)	(139,484)						(813,138)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	109,824	45,410						(250,666)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	35,705	513						36,218
Effect of foreign exchange rate changes	(3,708)	—						(3,708)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	141,821	45,923						(218,156)

Notes:

1) The consolidated statement of financial position of the Existing Group is extracted from the Company's published annual report for the year ended 31 December 2021 and consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows are extracted from the Company's published annual report for the year ended 31 December 2021.

2) The financial information of the Target College is extracted from the accountants' report of the Target College as set out in Appendix I to this circular.

3) The pro forma adjustment represents the recognition of the investment cost in the Target College.

   Pursuant to the sales and purchase agreement, Longkou Cheer Manor Education Consulting Service Co., Ltd (the "**Purchaser**"), a company incorporated in the People's Republic of China with limited liability and a directly wholly-owned subsidiary of the Company, conditionally agreed to acquire 70% interest in Target College at the total consideration of RMB566,000,000, which will be satisfied as to (a) RMB35,000,000 by cash to be settled by the Purchaser within ten business days upon the entering into of the acquisition agreement; (b) RMB70,000,000 by cash to be settled by the Purchaser within 10 business days upon fulfilment of the completion conditions; (c) RMB295,000,000 by cash (the "**Third Payment**") to be settled by the Purchaser within 10 business days upon the expiry of 90 days after completion which is extendible for a period of 180 days provided that an additional interest of 4% per annum should be paid to Nanshan Group Co., Ltd ("**Nanshan Group**"); (d) RMB109,400,000 by cash to be settled by the Purchaser within 10 business days upon the earlier of (i) fulfilment of the fourth payment conditions stated in the acquisition agreement or (ii) the expiry of two years after completion (the "**Fourth Payment**"). The Fourth Payment is extendible for a period of 360 days provided that an additional interest 4% per annum should be paid to Nanshan Group, and (e) RMB56,600,000 by cash (the "**Fifth Payment**") to be settled by the Purchaser if the Fourth Payment is made based on the expiry of two year period after completion upon fulfilment, then the payment shall be made within ten business days upon the fulfilment of the Fourth payment conditions or the expiry of four years after completion, whichever is later or if the Fourth Payment is made based on the fulfilment of the Fourth payment conditions, then the payment shall be made with ten business days upon the expiry of four years after completion. The Fifth Payment is extendible for a period of 720 days provided that an additional interest at 4% per annum should be paid to Nanshan Group.

   For the details of the consideration, please refer to section "Letter from the Board".

Assuming the completion conditions are fulfilled as at the date of completion and extension of payment will be made by the Existing Group for the Third Payment to extend the payment for 180 days.

	Note	*RMB'000*
Cost of investment in the Target College		
Cash paid as the date of completion of the Acquisition		35,000
Consideration payable within one year		365,000
Consideration payable more than one year		166,000
		566,000
Interest payable of Third Payment		5,900
Less: Fair value change of consideration payable and interest payable	a	(34,952)
		536,948

a Based on the estimation made by the Directors and in view of the current market condition, management, having discussed with the independent professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, considered that the fair value of the consideration is approximately RMB536,948,000 at the date of completion of the Acquisition. As approximately RMB144,662,000 will be paid more than one year after the date of completion, it is presented as a non-current liability payable for the purpose of presenting the unaudited pro forma consolidated statement of financial position.

4) The Target College has operation before completion of the Acquisition. Therefore, the Acquisition has been accounted for as business combination in accordance with International Financial Reporting Standard 3 "Business Combinations" in the Unaudited Pro Forma Financial Information of the Enlarged Group.

The adjustment represents the recognition of gain on bargain purchase and the fair value adjustments on the identifiable assets and liabilities of the Target College that would arise from the Acquisition.

The identifiable assets and liabilities recognised at the date of completion of the Acquisition are as follows:

	Notes	*RMB'000*
Net assets of the Target College		661,991
Add: Fair value adjustments:	a	
— Property and equipment		20,979
— Intangible assets		33,734
— Right-of-use assets		386,705
		1,103,409
Gain on bargain purchase arising from the Acquisition		
Consideration transferred *(Note 3)*		536,948
Add: non-controlling interest (30% in the Target College, at proportionate share)		331,023
Less: net assets acquired		(1,103,409)
Gain on bargain purchase	b	(235,438)

a The Directors have determined the fair value of the identifiable assets and liabilities of the Target College as at 31 March 2022 with reference to a valuation report issued by an independent professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited. The basis of the valuation assessment and the calculation are as follows:

	Notes	**Carrying amounts** *RMB'000*	**Fair value adjustments** *RMB'000*	**Fair value** *RMB'000*
Property and equipment	i	809,946	20,979	830,925
Right-of-use assets	ii	77,642	386,705	464,347
Intangible assets	iii	—	33,734	33,734

i Property and equipment

The property and equipment have been valued by the cost approach with reference to their depreciation replacement cost and market approach.

Cost approach

The key inputs are the estimations of reproduction costs ranged from RMB760 to RMB4,080 per square metre, duration of the construction ranged from 0.25 to 0.90 year and 4.35% interest rate of borrowing when it is assumed to fund from external borrowing. The cost approach is adopted on the property and equipment when there are no observable information on similar characteristics of property and equipment.

Market approach

The key puts are the relevant sales evidences ranged from RMB4,764 to RMB5,030 per square meter in the locality which have similar characteristics as the property and the adjustment factor ranged from 9.21% to 10.31% for the different characteristics. The market approach is adopted on the building and carparks included in property when there are observable information on similar characteristics of premises in the market.

ii Right-of-use assets

The land interests have been valued by the market approach.

The key puts are the relevant sales evidences ranged from RMB362 to RMB504 per square meter in the locality which have similar characteristics as the land and the adjustment factor ranged from –18.33% to –1.00% for the different characteristics. The characteristics taken into account in the valuation are mainly nature of land use right, land use term, plot ratio and location.

iii Intangible assets

The intangible assets represent the brand name of the Target College and its student base, which fair value is arrived by using the multi-period excess-earnings method which estimated the future direct economic benefits and costs attributed to the intangible assets. The useful life of brand name is indefinite and the useful life of student base is 3.42 years.

The fair value of the brand name of the Target College is according to the cash flow projection based on financial budgets covering a 5-year period and a pre-tax discount rate of 17.10%. Cash flows beyond 5-year period are assumed constant with 3% growth rate.

The fair value of the student base of the Target College is according to the cash flow projection based on financial budgets covering a 3.42 year period and a pre-tax discount rate of 16.10%.

iv Impairment assessments

For the purpose of preparing the Unaudited Pro Forma Financial Information, the Directors have made an assessment on whether there is any impairment in respect of property and equipment, right-of-use assets and intangible assets arising from the Acquisition with reference to IAS 36 "Impairment of Assets". They have taken into consideration the historical financial performance of the Target College and synergy effect to the business of the Enlarged Group as key parameters for the assessment. Based on the assessment results, the Directors concluded that there is no impairment in the value of property and equipment, right-of-use assets and intangible assets.

Upon completion of the Acquisition and at the end of each reporting period, the Group will adopt consistent accounting policies, principal assumptions and methodology of impairment assessment (as used in the Unaudited Pro Forma Financial Information) to assess the impairment of the Enlarged Group's property and equipment, right-of-use assets and intangible assets.

b Gain on bargain purchase represents the excess of the Company's share of net fair value of Target College's identified assets and liabilities over the sum of consideration transferred.

5) This represents the recognition of transaction costs to be incurred by the Company for the Acquisition. The amount is subject to change upon the actual completion of the Acquisition. This adjustment does not have continuing effect on the Enlarged Group.

6) The pro forma adjustment represents elimination of intra-group transaction which is a finance leasing arrangement between the Existing Group and the Target College upon the completion of the Acquisition.

For the purpose of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group for the year ended 31 December 2021, revenue of the Existing Group and finance costs of the Target College of RMB5,186,000 were eliminated assuming that the Acquisition had been completed on 1 January 2021.

For the purpose of the unaudited pro forma consolidated statement of cash flows of the Enlarged group for the year ended 31 December 2021, revenue received of the Existing Group and finance costs paid of the Target College of RMB5,186,000 and settlement of finance lease receivable of the Existing Group and other borrowings of the Target College of RMB84,016,000 were eliminated assuming that the Acquisition had been completed on 1 January 2021.

This adjustment does not have continuing effect on the Enlarged Group.

7) The Existing Group classifies the items of income and expense by nature for the consolidated statement of profit or loss and other comprehensive income while the Target College classifies the items of income and expense by function for the statement of profit or loss and other comprehensive income. To conform the presentation for unaudited pro forma consolidated statement of profit or loss and other comprehensive income of the Enlarged Group, the staff costs and other operating expenses of the Existing Group are reclassified to administrative expenses and the other income and other gain, net are reclassified to other income, gains or losses. This adjustment does not have continuing effect and no net impact on the consolidated result of the Enlarged Group.

Breakdown of reclassification — Administrative expenses, Staff costs and Other operating expenses

	Existing Group	Target College	Pro forma adjustments			Enlarged Group
	RMB'000	*RMB'000*	*RMB'000* (*Note 5*)	*RMB'000* (*Note 7*)	*RMB'000* (*Note 8*)	*RMB'000*
Administrative expenses	—	22,924	—	50,111	382	73,417
Staff costs	11,124	—	—	(11,124)	—	—
Other operating expenses						
— Legal and professional fees	14,854	—	11,552	(26,406)	—	—
— Expense relating to short-term leases	1,983	—	—	(1,983)	—	—
— Entertainment expenses	505	—	—	(505)	—	—
— Travelling expenses	1,624	—	—	(1,624)	—	—
— Other tax expenses	1,866	—	—	(1,866)	—	—
— Depreciation and amortisation*	2,842	—	—	(2,842)	—	—
— Others	3,761	—	—	(3,761)	—	—
	27,435	—	11,552	(38,987)	—	—

* *Included depreciation of property and equipment, right-of-use assets and amortisation of intangible assets*

Breakdown of reclassification — Other income, gains or losses, Other income and Other gain, net

	Existing Group	Target College	Pro forma adjustments		Enlarged Group
	RMB'000	*RMB'000*	*RMB'000* (*Note 4*)	*RMB'000* (*Note 7*)	*RMB'000*
Other income, gains or losses	16,579	—	235,438	20,932	272,949
Other income					
— Bank interest income	—	231	—	(231)	—
— Rental income	—	11,765	—	(11,765)	—
— Sales of education materials	—	4,494	—	(4,494)	—
— Bathroom service income	—	611	—	(611)	—
— Sundry income	—	1,874	—	(1,874)	—
	—	18,975	—	(18,975)	—
Other gain, net					
— Gain on disposal of property and equipment, net	66	—	—	(66)	—
— Others	1,891	—	—	(1,891)	—
	1,957	—	—	(1,957)	—

8) The adjustment represents additional depreciation and amortisation on the fair value of the property and equipment, right-of-use assets and intangible assets of approximately RMB1,302,000, RMB11,489,000 and RMB5,387,000 respectively as a consequence of the recognition of the fair value adjustment of property, plant and equipment, intangible assets and right-of-use assets.

The key inputs for the valuations included the estimations of reproductions costs, duration of the construction, relevant market sales of the properties, the cashflow projection of the Target College and discount rates. The Directors have discussed with the independent professional valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, and considered that there was no material change on those inputs between 1 January 2021 and 31 March 2022.

For the purpose of this unaudited pro forma financial information, the Directors, having considered the above factors, assumed that the fair values of the property and equipment, right-of-use assets and intangible assets as set out in the valuation report as at 31 March 2022 are the same as at 1 January 2021. The Directors assumed that the gain on bargain purchase arising from the Acquisition as at 1 January 2021 approximated that as compared in note 4 above.

This pro forma adjustment is expected to have a continuing effect on the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

9) The amount represents the adjustment of 30% share of profit and total comprehensive income of the Target College to the non-controlling interests that is attributable to equity holders of the Group for the year ended 31 December 2021 assuming the Acquisition had been completed on 1 January 2021 for the purpose of the Unaudited Pro Forma Financial Information. This pro forma adjustment is expected to have a continuing effect on the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows.

10) Apart from the above, no adjustments have been made to the Unaudited Pro Forma Financial Information of the Enlarged Group to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2021 where applicable.

SHINEWING (HK) CPA Limited
17/F, Chubb Tower, Windsor House,
311 Gloucester Road,
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司
香港銅鑼灣告士打道311號
皇室大廈安達人壽大樓17樓

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The Board of Directors
International Alliance Financial Leasing Co., Ltd
Unit 2602, 26th Floor,
One Hennessy,
No.1 Hennessy Road
Wanchai, Hong Kong

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of International Alliance Financial Leasing Co., Ltd (the "**Company**") and its subsidiaries (collectively referred to as the "**Existing Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2021, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2021, and related notes as set out on pages III-1 to III-13 of the circular in connection with the proposed acquisition of 70% interests in the Target College (the "**Acquisition**") dated 3 August 2022 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Notes 1 to 10 to the unaudited pro forma financial information.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Acquisition on the Existing Group's financial position as at 31 December 2021 and the Existing Group's financial performance and cash flows for the year ended 31 December 2021 as if the Acquisition had taken place at 31 December 2021 and 1 January 2021 respectively.

As part of this process, information about the Existing Group's financial position, financial performance and cashflows has been extracted by the directors of the Company from the Existing Group's financial statements for the year ended 31 December 2021 on which audit report has been published. Information about the Target College's financial position, financial performance and cash flows has been extracted by the directors of the Company from Appendix I of this Circular.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing**

Rules") and with reference to Accounting Guideline 7 "**Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars**" ("**AG7**") 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 behaviour.

The 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 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of the Acquisition on unadjusted financial information of the Existing Group as if the Acquisition had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition as at 31 December 2021 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Enlarged Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Existing Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lee Shun Ming
Practising Certificate Number: P07068

Hong Kong
3 August 2022

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 May 2022 of the property interests held by Yantai Nanshan University.

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
7/F One Taikoo Place 979 King's Road Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

3 August 2022

The Board of Directors
International Alliance Financial Leasing Co., Ltd.
Unit 2602, 26th Floor, One Hennessy,
No. 1 Hennessy Road
Wan Chai
Hong Kong

Dear Sirs,

In accordance with the instructions of International Alliance Financial Leasing Co., Ltd. (the "**Company**") to value the property interests held by Yantai Nanshan University (the "**Target College**") 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 of the market values of the property interests as at 31 May 2022 (the "**valuation date**").

The property interests do not form part of property activities but the properties have a carrying amount of 15% or more of total assets of the Target College, therefore the valuation report of the property interests is required to be included in this circular. Except for the property interests in this property valuation report, no single property interest that forms part of non-property activities had a carrying amount of 15% or more of total assets of the Target College.

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 completed buildings and structures of property nos. 1 and 2, there are no market sales comparables readily available, the property interests have been valued by the cost approach with reference to their 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 (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of 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.

We have valued the property interests of property no. 3 by the comparison approach assuming sale of the property interests in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Our valuation has been made on the assumption that the seller sells the property interests 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 values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value.

In valuing the property interests, 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 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 the Company 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 title documents including Real Estate Title Certificates and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC Legal Advisers — Commerce & Finance Law Offices, concerning the validity of the property interests in the PRC.

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 properties. 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 and that no unexpected cost and delay will be incurred during construction. 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 properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in September 2021 by Ms. Simona Lei. Ms. Simona Lei is a China Real Estate Appraiser and has more than 2 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB) in respect of all the properties.

We are instructed to provide our opinion of values as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on 11 March 2020 has caused much disruption to economic activities around the world. As of the valuation date, China's economy is experiencing gradual recovery and it is anticipated that disruption to business activities will steadily reduce. We also note that market activity and market sentiment in these particular market sectors remain stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of these properties under frequent review.

Our summary of values and valuation certificates are attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T. W. Yiu is a Chartered Surveyor who has 28 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 VALUES

No.	Property	Market value in existing state as at the valuation date *RMB*
1.	Donghai Campus of Yantai Nanshan University No. 12 Daxue Road Longkou City Yantai City Shandong Province The PRC (煙台南山學院東海校區)	1,032,400,000 *(See note 1)*
2.	Nanshan Conservatory of Music located at the eastern side of Jingqu Road Nanshan Village Longkou City Yantai City Shandong Province The PRC (南山音樂學院)	114,700,000
3.	A residential unit and a car parking space of Building No. 20 Yihe East Community located at the southern side of Nanshan Middle Road Longkou City Yantai City Shandong Province The PRC (怡和東區20號樓一個住宅單元及一個車庫)	No commercial value *(See note 2)*
	Total:	**1,147,100,000**

Notes:

1. As at the valuation date, the relevant Real Estate Title Certificates of buildings with a total gross floor area of approximately 61,555.66 sq.m. of property no.1 have not been obtained by the Target College. Therefore, in the valuation of this property, we have attributed no commercial value to such buildings. However, for reference purpose, we are of the opinion that the depreciated replacement cost of these buildings (excluding the land) as at valuation date would be RMB61,400,000.

2. As at the valuation date, the relevant Real Estate Title Certificate of property no.3 has not been obtained by the Target College. Therefore, in the valuation of this property, we have relied on the legal opinions and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the market value of property no.3 as at the valuation date would be RMB670,000, assuming the relevant title certificates have been fully obtained and the property could be freely transferred.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2022 *RMB*
1.	Donghai Campus of Yantai Nanshan University No. 12 Daxue Road Longkou City Yantai City Shandong Province The PRC (煙台南山學院東海校區)	The property comprises 3 parcels of land with a total site area of approximately 1,655,853 sq.m. and 114 buildings erected thereon which were completed between 2003 and 2020. The buildings have a total gross floor area of approximately 595,592.35 sq.m., mainly including 20 teaching buildings, 2 office buildings, a library, a stadium, 4 canteens, 42 dormitory buildings, an apartment building, 13 villas, 2 public bath centres and 28 ancillary facilities buildings. The usage and gross floor area details of the property are set out as below:	As at the valuation date, portions of the property were leased to independent third parties for canteen and educational uses, whilst the remaining portion of the property was occupied by the Target College for educational and ancillary purposes.	1,032,400,000 *(See note 5)*

Usage	Gross Floor Area *(sq.m.)*
Teaching	224,648.28
Office	17,935.92
Library	30,792.39
Stadium	5,608.65
Canteen	56,388.54
Dormitory	238,990.34
Apartment	12,497.95
Villa	2,840.57
Public bath	1,859.79
Ancillary facilities	4,029.92
Total:	**595,592.35**

The land use rights of 2 parcels of land with a total site area of approximately 1,211,795 sq.m. have been granted for terms expiring on 18 October 2055 and 19 December 2055 for scientific and educational use.

The land use rights of the remaining land parcel of the property have not been vested in the Target College.

Notes:

1. Pursuant to a Real Estate Title Certificate — Lu (2021) Long Kou Shi Bu Dong Chan Quan Di No. 0066701, 19 teaching buildings, 2 office buildings, a library, 3 canteens, 31 dormitory buildings, an apartment, 13 villas, 2 public bath centres and 16 ancillary facilities buildings of the property with a total gross floor area of approximately 489,313.63 sq.m. are owned by the Target College. The relevant land use rights of a parcel of land with a site area of approximately 1,171,116 sq.m. have been granted to the Target College for a term of 50 years expiring on 19 December 2055 for scientific and educational use.

2. Pursuant to a Real Estate Title Certificate — Lu (2022) Long Kou Shi Bu Dong Chan Quan Di No. 0005579, 5 dormitory buildings and a canteen of the property with a total gross floor area of approximately 44,723.06 sq.m. are owned by the Target College. The relevant land use rights of a parcel of land with a site area of approximately 40,679 sq.m. have been granted to the Target College for a term of 50 years expiring on 18 October 2055 for scientific and educational use.

3. For a parcel of land with a site area of approximately 444,058 sq.m. of the property, the Target College had not obtained the land use rights certificate and such parcel of land had been occupied and put into use for educational and ancillary purposes by the Target College. In the valuation of this property, we have attributed no commercial value to such land parcel.

4. For a teaching building, a stadium, 6 dormitory buildings and 12 ancillary facilities buildings of the property with a total gross floor area of approximately 61,555.66 sq.m., we have not been provided with any title certificates. As advised by the Target College, the Target College is applying for the Construction Work Completion and Inspection Acceptance Certificates of such buildings.

5. Pursuant to the interview with Supervisal Corps of Law Enforcement of Natural Resources of Longkou City (龍口市自然資源執法監察大隊), being the competent authority to confirm the following matters as advised by the PRC Legal Advisers, dated 17 December 2021, (i) the Target College will not be ordered to return such land occupied, remove the buildings and other structures on the land occupied by the Target College by such PRC government authority; (ii) the Target College will not be subject to any administrative penalty by such authority due to possession and use of such land as mentioned in note 3; and (iii) no record of penalties of the Target College due to this non-compliance incident as at the date of the aforementioned confirmation. Based on the foregoing, the PRC Legal Advisers are of the view that the risk that the Target College may be subject to administrative penalty by such PRC government authority for this non-compliance incident is relatively low. Please refer to the section headed "Business of the Target College — Legal Proceedings and Compliance — Historical Non-compliance Incidents" in this circular for details.

6. 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. The Target College has obtained the Real Estate Title Certificates of portions of the property mentioned in notes 1 and 2. Within the land use rights terms, the Target College has the rights to legally and solely occupy, use, lease or transfer such portions of the property;

   b. According to the PRC laws and regulations, educational facilities of non-profit legal persons established for public welfare such as schools and etc. shall not be mortgaged, hence the property shall not be mortgaged;

   c. For a parcel of land with a site area of approximately 444,058 sq.m. mentioned in note 3, the Target College had not obtained any land use rights certificate and such parcel of land had been occupied and put into use for educational and ancillary purposes by the Target College. The Target College may be ordered to return such illegally occupied land parcel, the buildings and the other structures erected on such land parcel may be confiscated and a fine between RMB100 and RMB1,000 per square metre may be imposed. However, according to the confirmation of the Supervisal Corps of Law Enforcement of Natural Resources of Longkou City, the risk that the Target College may be subject to any administrative penalty by such PRC government authority is relatively low;

d. For a teaching building, a stadium, 6 dormitory buildings and 12 ancillary facilities buildings of the property mentioned in note 4, the Construction Work Planning Permits have not been obtained by the Target College. The competent licence issuing government authority shall order the construction to be ceased and if such impact cannot be rectified, the Target College may be subject to a fine ranging from 5% to 10% of the construction cost and ordered to rectify the impact on the town planning caused by such construction; or if such impact cannot be rectified, the Target College may be ordered to demolish the building within a prescribed period of time, and if the building cannot be demolished, the Target College may be subject to a fine of not more than 10% of the construction cost and the confiscation of the building and/or any income illegally earned from such construction. However, according to the confirmation of the Natural Resources and Planning Bureau of Longkou City (龍口市自然資源與規劃局) and Longkou Municipal Comprehensive Administrative Law Enforcement Bureau (龍口市綜合行政執法局), the risk that Target College may be subject to any administrative penalty by such bureaus is relatively low;

e. For a teaching building, a stadium and 6 dormitory buildings of the property mentioned in note 4, the Target College had commenced the construction without the Construction Work Commencement Permits. The competent licence issuing government authority shall order the construction to be ceased, order rectification within a prescribed time limit and impose a fine of not less than 1% and not more than 2% of the contract price of the construction. However, according to the confirmation of the Housing and Urban Rural Construction Administration Bureau of Longkou City (龍口市住房與城鄉建設管理局) and Longkou Municipal Comprehensive Administrative Law Enforcement Bureau, the risk that Target College may be subject to any administrative penalty by such bureaus is relatively low;

f. For 31 dormitory buildings, 19 teaching buildings, 2 office buildings, an apartment, 3 canteens, a library, 2 public bath centres of the property mentioned in note 1, 5 dormitory buildings and a canteen of the property mentioned in note 2, and a teaching building, a stadium and 6 dormitory buildings of the property mentioned in note 4, the Target College has commenced the construction without obtaining the fire control design review and approval and the Target College has put these buildings into use without passing the fire control completion acceptance check. The Target College is subject to the risk of being prohibited from using these buildings or closing the Target College's business relevant to the affected buildings, and being fined between RMB30,000 and RMB300,000 per building. However, according to the confirmation of the Housing and Urban Rural Construction Administration Bureau of Longkou City and Longkou Municipal Comprehensive Administrative Law Enforcement Bureau, the risk that Target College may be subject to any administrative penalty by such bureaus is relatively low except for one office building which is subject to the risk of being prohibited from using this building or closing the Target College's business relevant to this building, and being fined between RMB30,000 and RMB300,000; and

g. For a teaching building, a stadium and 6 dormitory buildings of the property mentioned in note 4, the Target College has put these buildings into use without passing the construction project completion and inspection acceptance check before putting into use. The Target College may be ordered to rectify and may be subject to a fine of not less than 2% and not more than 4% of the contract price of the construction per building. The Target College may be obliged to pay compensation whenever any damage has been caused. However, according to the confirmation of the Housing and Urban Rural Construction Administration Bureau of Longkou City and Longkou Municipal Comprehensive Administrative Law Enforcement Bureau, the risk that Target College may be subject to any administrative penalty by such bureaus is relatively low.

7. As at the valuation date, the relevant Real Estate Title Certificates of the buildings mentioned in note 4 have not been obtained by the Target College. Therefore, in the valuation of this property, we have relied on the aforesaid legal opinions and attributed no commercial value to the buildings mentioned in note 4. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the aforesaid buildings (excluding the land) as at valuation date would be RMB61,400,000.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2022 *RMB*
2.	Nanshan Conservatory of Music located at the eastern side of Jingqu Road Nanshan Village Longkou City Yantai City Shandong Province The PRC (南山音樂學院)	The property comprises a parcel of land with a site area of approximately 35,171 sq.m., and a teaching building erected thereon which was completed in 2005. The building has a gross floor area of approximately 35,796.32 sq.m. The land use rights of the property have been granted for a term expiring on 30 December 2043 for cultural facilities use.	As at the valuation date, the property was occupied by the Target College for educational purpose.	114,700,000

Notes:

1. Pursuant to a Transaction Contract dated 1 March 2021, the property was contracted to be transferred from Nanshan Holdings Co., Ltd. (the "**Nanshan Group**") to the Target College. The total consideration is RMB113,762,680. As advised by the Target College, as at the valuation date, the total consideration was fully paid.

2. Pursuant to a Real Estate Title Certificate — Lu (2021) Long Kou Shi Bu Dong Chan Quan Di No. 0057473, the property with a gross floor area of approximately 35,796.32 sq.m. is owned by the Target College. The relevant land use rights of a parcel of land with a site area of approximately 35,171 sq.m. have been granted to the Target College for a term of 50 years expiring on 30 December 2043 for cultural facilities 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. The Target College has obtained the Real Estate Title Certificate of the property mentioned in note 2. Within the land use rights terms, the Target College has the rights to legally and solely own, use, lease or transfer the property;

   b. According to the PRC laws and regulations, educational facilities of non-profit entities such as schools and etc. shall not be mortgaged, hence the property shall not be mortgaged;

   c. For the building of the property, the Target College has commenced the construction without obtaining the fire control design review and approval before putting into use. The Target College is subject to the risk of being prohibited from using this building or closing the Target College's business relevant to this building, and being fined between RMB30,000 and RMB300,000 per building; and

   d. For the building of the property, the Target College has put this building into use without passing the fire control completion acceptance check before putting into use. The Target College is subject to the risk of being prohibited from using this building or closing the Target College's business relevant to this building, and being fined between RMB30,000 and RMB300,000 per building.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May 2022 *RMB*
3.	A residential unit and a car parking space of Building No. 20 Yihe East Community located at the southern side of Nanshan Middle Road Longkou City Yantai City Shandong Province The PRC (怡和東區20號樓一個住宅單元及一個車庫)	The property comprises a residential unit (unit No.101) on Level 2 and a car parking space on Level 1 of a 4-storey residential building known as Building No. 20 Yihe East Community which was completed in 2009. The property has a total gross floor area of approximately 178.78 sq.m., comprising approximately 151.42 sq.m. of a residential unit and approximately 27.36 sq.m. of a car parking space. The land use rights of the property have been granted for a term expiring on 27 June 2073 for residential use.	As at the valuation date, the property was occupied by the Target College for residential and car parking purposes.	No commercial value *(See note 4)*

Notes:

1. Pursuant to a Commodity House Sales Contract — No. A0202207 dated 18 March 2009, the property with a gross floor area of approximately 178.78 sq.m. had been purchased by the Target College at a total consideration of RMB350,271. The relevant land use rights of the property have been granted for a term expiring on 27 June 2073 for residential use. As advised by the Target College, as at the valuation date, the total consideration was fully paid and the Target College was applying for the Real Estate Title Certificate of the property.

2. In undertaking our valuation, we have identified and analysed various relevant sales evidences in the locality which have similar characteristics as the property. The unit price of these comparable properties ranges from RMB4,300 to RMB5,200 per sq.m. for residential units (sale altogether with a car parking space). The relevant residential sale evidences, which share the similar location, size, building condition, transaction date and other characters compared with the property, are selected as the comparables in our valuation. We have made adjustment to these comparables in respect of the difference in completion date, gross floor area and layout, etc. to arrive at an assumed unit rate for the property.

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. The Commodity House Sales Contract mentioned in note 1 is legal and valid; and

   b. The relevant Real Estate Title Certificate of the property has not been obtained by the Target College. Within the land use rights terms, the Target College has the rights to legally and solely occupy, use, lease or transfer the property after the relevant title certificates have been obtained.

4. As at the valuation date, the relevant Real Estate Title Certificates of the property have not been obtained by the Target College. Therefore, in the valuation of this property, we have relied on the aforesaid legal opinions and attributed no commercial value to the property. However, for reference purpose, we are of the opinion that the market value of the property as at the valuation date would be RMB670,000, assuming the relevant title certificates have been fully obtained and the property could be freely transferred.

The following is the text of a report prepared for the purpose of incorporation in this circular received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its opinion of the market value of 70 percent equity interest in Yantai Nanshan University (煙台南山學院) as at 31 March 2022.

3 August 2022

The Board of Directors
International Alliance Financial Leasing Co., Ltd.
Unit 2602, 26th Floor, One Hennessy,
No. 1 Hennessy Road
Wan Chai
Hong Kong

Dear Sirs,

In accordance with your instructions, we have undertaken a valuation which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited to express an independent opinion of the market value of 70 percent equity interest in Yantai Nanshan University (煙台南山學院, "**Nanshan University**" or the "**Target**") as at 31 March 2022 (the "**Valuation Date**"). The report which follows is dated 3 August 2022 (the "**Report Date**").

The purpose of this valuation is for internal reference and public disclosure.

Our valuation was 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*".

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of the Target. We have also considered various risks and uncertainties that have potential impact on the Target.

We do not intend to express any opinion in matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Target over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 70 percent equity interest in the Target as at the Valuation Date is RMB615,240,000.

The following pages outline the factors considered, methodology and assumptions employed in formulating our opinions and conclusions. Any opinions are subject to the assumptions and limiting conditions contained therein.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

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INTRODUCTION

This report has been prepared in accordance with instructions from International Alliance Financial Leasing Co., Ltd. (国际友联融资租赁有限公司, "**Alliance Financial Leasing**" or the "**Company**"), to express an independent opinion of the market value of 70 percent equity interest in Yantai Nanshan University (煙台南山學院, "**Nanshan University**" or the "**Target**") as at 31 March 2022 (the "**Valuation Date**"). The report which follows is dated 3 August 2022 (the "**Report Date**").

PURPOSE OF VALUATION

The purpose of this valuation is for internal reference and public disclosure.

BASIS OF OPINION

Our valuation was 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*".

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. We planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject assets. We believe that the valuation procedures we employed provide a reasonable basis for our opinion.

BACKGROUND

The Company was listed on the main board of the Hong Kong Stock Exchange in March 2019. The Company provides finance leasing and advisory services and offers sale-leaseback and direct finance leasing services for customers in healthcare and public infrastructure industries.

The Target is a private institution of higher education that provides undergraduate and junior college programmes approved by Ministry of Education of the PRC. The Target College offers 49 undergraduate programmes and 40 junior college programmes under 12 secondary colleges, with a total of 30 faculties. During the 2021/2022 school year, it had a student enrollment of more than 29,000 in total.

The Company and the Target have signed a conditional framework agreement which allows the Company to acquire a total of 70% of the entire share capital of the Target.

APPROACH AND METHODOLOGY

In arriving the market value of 70 percent equity interest in the Target, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach.

Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market.

Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long-time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Selection of Valuation Approach and Methodology

To select the most appropriate approach, we have considered the purpose of the valuation engagement and the resulting basis of value as well as the availability and reliability of information provided to us to form perform an analysis. We have also considered the relative advantages and disadvantages of each approach to the nature and circumstances of the Target. In our opinion, the cost approach is inappropriate for valuing the Target, as it does not directly incorporate information about the economic benefits contributed by the Target. The income approach is not the most optimal approach as it involves long-term financial projections and the adoption of numerous assumptions, not all of which can be easily quantified or ascertained. We have therefore relied on the market approach in determining our opinion of value.

There are two common methods under market approach, namely, guideline public companies method and guideline transaction method. Guideline public companies method requires identifying suitable guideline public companies and selection of appropriate trading multiples, while guideline transaction method takes reference to recent mergers and acquisitions transaction between unrelated parties and ratio of transaction price to Target's financial metrics.

In this exercise, the market value of equity interest in the Target was developed through the guideline public company method. The guideline transaction method is not adopted due to lack of sufficient recent market transactions with similar nature as the Target. The guideline public company method requires the research of comparable companies' benchmark multiples and selection of an appropriate multiple.

Selection of Valuation Price Multiples

In order to reflect the latest financial performance and position of the Target, it is considered that the suitable multiple in this valuation is the current enterprise value to EBITDA ratio (the "**EV/EBITDA Ratio**"), which is defined as the current enterprise value to the normalised earnings before interest, tax, depreciation and amortisation of the Target from 1 January 2021 to 31 December 2021. EV/EBITDA is a capital structure neutral ratio since it takes into account the debt and earnings before interest expenses. It allows us to compare the Target against the comparable companies without considering how each comparable company finances its operations.

ASSUMPTIONS

In this exercise, we have applied the following assumptions as at the Valuation Date in deriving the market value of the 70 percent equity interest in the Target.

General Assumptions

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;
- The operational and contractual terms stipulated in the relevant contracts and agreements will be honoured;
- The facilities and systems proposed are sufficient for future expansion in order to realise the growth potential of the business and maintain a competitive edge; and
- We have assumed that there are no hidden or unexpected conditions associated with the Target that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

Market Multiple

Under guideline public company method, in determining the financial multiple, a list of comparable companies was identified. The selection criteria include the followings:

- The companies are publicly listed on HKEX;
- The companies have been actively traded on HKEX no less than six months;
- The companies mainly engage in education service that provides undergraduate and junior college programmes (over 50% of their respective total revenue generated from higher education service in their respective latest financial year);
- The companies mainly operate in Mainland China; and
- Sufficient data, including the EV/EBITDA Ratio, on the companies are available as at the Valuation Date.

The comparable companies satisfying the aforementioned criteria are:

Ticker	Name	% of Revenue from Higher Education Service*	EV/EBITDA Ratio Before Adjustment**
6169 HK Equity	China Yuhua Education Co., Limited	90%	2.29
1765 HK Equity	Hope Education Group Co., Limited	100%	3.88
1890 HK Equity	China Kepei Education Group Limited	94%	4.73
0382 HK Equity	Edvantage Group Holding Limited	97%	4.89
1569 HK Equity	Minsheng Education Group Co., Limited	80%	3.57
9616 HK Equity	Neusoft Education Technology Co., Limited	75%	7.49
1935 HK Equity	JH Educational Technology Inc.	97%	9.97
1593 HK Equity	Chen Lin Education Group Holdings Limited	96%	40.30
1525 HK Equity	Shanghai Gench Education Group Limited	100%	4.57
1756 HK Equity	Huali University Group Limited	87%	6.72
1969 HK Equity	China Chunlai Education Group Co., Limited	100%	4.75
1851 HK Equity	China Gingko Education Group Company Limited	100%	16.54
1449 HK Equity	Leader Education Limited	100%	7.32
2779 HK Equity	China Xinhua Education Group Limited	89%	4.56
839 HK Equity	China Education Group Holdings Limited	75%	8.70

* *The percentage of revenue generated from higher education service is directly extracted from annual reports of the comparable companies or calculated based on revenue segments or operating segments information if direct data is unavailable.*

** *Data source: Bloomberg*

Based on the aforementioned selection criteria, the list of comparable companies above is considered to be exhaustive, fair and representative. On 30 November 2021, China Yuhua Education Co., Limited ("**Yuhua**") announced the audited consolidated annual results of the Group for the year ended 31 August 2021. In the announcement, it is mentioned that the management of Yuhua assessed that all preschools in the Kindergartens segment and the compulsory education business which is middle school and primary school business in the Grade 1–12 segment were affected by the Implementation Regulations of the PRC effective on 1 September 2021. Directors of Yuhua then classified the operations relating to its affected business as discontinued operations and the results of the discontinued operations were presented separately in the consolidated statement of profit or loss for the year ended 31 August 2021. The net assets relating to the affected business were RMB1,042,265,000 upon deconsolidation as at 31 August 2021 and an aggregate one-off loss upon deconsolidation of the affected business was recognised during the year and included in the losses from discontinued operations. The business operation as well as stock prices of Yuhua are significantly affected by the aforementioned event and hence Yuhua is removed from the list of comparable companies.

As the businesses of the comparable companies are located in different regions, they are thus exposed to different macroeconomic and market risks. Moreover, the comparable companies are often of significantly different size from the Target. Larger companies generally have lower expected returns that translate into higher values. On the other hand, small companies are generally perceived as riskier in relation to business operation and financial performance, and therefore the expected returns are higher and resulting in lower multiples. Therefore, the base multiples were adjusted to reflect the difference in natures between the comparable companies and the Target.

The adjusted EV/EBITDA Ratios were calculated using the following formula:

Adjusted EV/EBITDA Ratio = $1/((1/M) + \alpha * \varepsilon * \theta)$

Where:

M = *The Base EV/EBITDA Ratio*

α = *The scale factor, which converts the base measure of the benefits to an alternative measure of benefits for the comparable companies*

ε = *The ratio of the equity value to the enterprise value of the comparable company*

θ = *Required adjustment in the equity discount rate for difference in size and country risk*

M is the base EV/EBITDA ratio and we take the reciprocal of M to come up with 1/M. The logic behind the pricing multiple adjustments is that the reciprocal of the base multiple represents a capitalization rate. In this valuation, the reciprocal of the base EV/EBITDA multiple represents a capitalization rate of the enterprise value.

For the parameter θ, it was used as a desired adjustment to reflect the difference in natures between the comparable companies and the Target. With reference to the 2022 SBBI® Yearbook published by Kroll Inc. (previously Duff & Phelps), depending on the market capitalization of each of the comparable companies, size premium differentials of 0.0%–3.59% were adopted to capture the size difference between the comparable companies and the Target. With reference to research data on country default spreads and risk premiums from Dr. Aswath Damodaran of New York University, since the comparable companies and the Target all mainly operate in Mainland China, country risk differentials of 0% were adopted to capture the difference in country risk between the comparable companies and the Target.

The ratio of the market capitalization to enterprise value ε was adopted as a weighting factor. As aforesaid, the logic behind this formula is that a pricing multiple is the reciprocal of the capitalization rate. In the case of an enterprise value multiple, the capitalization rate is driven by the weighted average cost of capital ("**WACC**") of the valuation subject. Since the size and country risk premium differentials " θ " are applicable only to the equity portion (for a listed company, market capitalization represents the market value of its equity) but not to the debt portion of the WACC, we only adjust the equity portion of the capitalization rate in this pricing multiple adjustment formula. The ratio ε was used to apply an appropriate weighting on the parameter θ so that the capitalization rate was adjusted only to the extent of its equity portion. In other words, the ratio ε takes into account of the varying capital structures among the comparable companies. Market capitalization and enterprise value of comparable companies are with reference to data from Bloomberg.

The ratio of EBITDA to net operating profit after tax ("**NOPAT**") was used as a scale factor α, which is applied in the adjustment of the EV/EBITDA multiple. It is considered that the base measure of the benefits for enterprise value to be NOPAT (Hitchner, 2017), which is a financial measure that shows how well a company performed through its core operations net of taxes and it excludes tax savings from existing debt and one-time losses or charges. As EV/EBITDA was adopted as the pricing multiple in this valuation, EBITDA becomes an alternative measure of the benefits for enterprise value in the pricing multiple adjustment formula. Hence, α was used as a scale factor for the alternative measure of benefit. EBITDA and NOPAT of comparable companies are with reference to data from Bloomberg.

The formula for adjusting the EV/EBITDA Ratios is widely accepted and applied, referenced to the textbook "Financial Valuation: Applications and Models (4th Edition) "by James R. Hitchner, a renowned valuation expert in the US. He is the managing director of a firm specialising in the valuation of businesses/intangible assets, litigation or forensic services with over 30 years of valuation experience. He is the editor in chief of the journal "Financial Valuation and Litigation Expert" and is editor or co-author of several valuation-related publications such as "Financial Valuation Workbook, Fourth Edition", "A Consensus View Q&A Guide to Financial Valuation" and "Valuation for Financial Reporting: Fair Value, Business Combination, Intangible Assets, Goodwill and Impairment Analysis, Third Edition".

The details of the adjustments of the comparable companies are as follows:

Ticker	Name	Total Adjustment ($\alpha * \varepsilon * \theta$)
1765 HK Equity	Hope Education Group Co., Limited	5.48%
1890 HK Equity	China Kepei Education Group Limited	3.07%
0382 HK Equity	Edvantage Group Holding Limited	2.66%
1569 HK Equity	Minsheng Education Group Co., Limited	6.33%
9616 HK Equity	Neusoft Education Technology Co., Limited	3.98%
1935 HK Equity	JH Educational Technology Inc.	4.61%
1593 HK Equity	Chen Lin Education Group Holdings Limited	0.00%
1525 HK Equity	Shanghai Gench Education Group Limited	0.00%
1756 HK Equity	Huali University Group Limited	0.00%
1969 HK Equity	China Chunlai Education Group Co., Limited	1.77%
1851 HK Equity	China Gingko Education Group Company Limited	0.00%
1449 HK Equity	Leader Education Limited	0.00%
2779 HK Equity	China Xinhua Education Group Limited	0.00%
839 HK Equity	China Education Group Holdings Limited	3.37%

The Adjusted EV/EBITDA Ratios of the comparable companies are shown as follows:

Ticker	Name	Adjusted EV/ EBITDA Ratio
1765 HK Equity	Hope Education Group Co., Limited	3.20
1890 HK Equity	China Kepei Education Group Limited	4.13
0382 HK Equity	Edvantage Group Holding Limited	4.33
1569 HK Equity	Minsheng Education Group Co., Limited	2.91
9616 HK Equity	Neusoft Education Technology Co., Limited	5.77
1935 HK Equity	JH Educational Technology Inc.	6.83
1593 HK Equity	Chen Lin Education Group Holdings Limited	40.30
1525 HK Equity	Shanghai Gench Education Group Limited	4.57
1756 HK Equity	Huali University Group Limited	6.72
1969 HK Equity	China Chunlai Education Group Co., Limited	4.39
1851 HK Equity	China Gingko Education Group Company Limited	16.54
1449 HK Equity	Leader Education Limited	7.32
2779 HK Equity	China Xinhua Education Group Limited	4.56
839 HK Equity	China Education Group Holdings Limited	6.73

The median of the EV/EBITDA Ratio is calculated at 5.17 and is adopted as the EV/EBITDA Ratio for the valuation on the market value of the equity interest in the Target.

Additional consideration

Discount for Lack of Marketability (DLOM)

A factor to be considered in valuing closely held companies such as the Target is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

For this exercise, the indicated discount for lack of marketability adopted for the equity interest in the Target is 15.8% as at the Valuation Date, based on a study *2021 edition of the Stout Restricted Stock Study Companion Guide* issued by Stout Risius Ross, LLC. The study represents the most widely used and accepted database available to valuators for DLOM determination. In the study, researchers have examined 763 private placement transactions of unregistered common stock, with and without registration rights, issued by publicly traded companies from July 1980 through December 2020. The overall median discount for all 763 transactions in the study is 15.8%.

Control Premiums and Discount for Lack of Control (DLOC)

Control Premium and Discount for Lack of Control (DLOC) are applied to reflect differences between the comparables and the subject asset with regard to the ability to make decisions. A Control Premium is defined as the additional consideration that an investor would pay over a marketable minority equity value in order to own a controlling interest in the common stock of a company. The Lack of Control Discount is the reduction applied to the valuation of a minority equity position in a company due to the absence of control. Minority shareholders usually have the inability to dictate the future strategic direction of the company, the election of directors, the nature, quantum and timing of their return on investment, or even the sale of their own shares. This absence of control reduces the value of the minority equity position against the total enterprise value of the company. As the Company intended to acquire 70 percent equity interest in the Target, which reflects a controlling interest, a control premium is adopted to calculate the market value of the Target.

A Control Premium 33.90% is adopted in this valuation. The positive announced premiums are derived by the application of the M&A function in the Bloomberg Terminal to sample all of the completed merger and acquisition transactions which involved acquisition of controlling stake (over 50%) in the target with positive premium on Hong Kong Stock Exchange during the three years preceding the Valuation Date and applying the median of the control premium in the sampled transactions. Transaction data in recent period can reflect more accurately on the control premium in the market as at the Valuation Date. After considering such time-relevant factor as well as sufficient quantity of data, it is considered that a 3-year period preceding the Valuation Date to be appropriate. In practice, negative premiums are commonly considered to be outliers and omitted in M&A samples. In the FactSet Mergerstat/BVR Control Premium Study (4th Quarter 2021), negative premiums have been excluded in the majority of the discussion and tables of the report. FactSet is a global financial data and analytics public company which has delivered expansive data and sophisticated analytics to global financial professionals for over 40 years. The FactSet Mergerstat/BVR Control Premium Study relies on more than 20 years of detailed transaction data to provide empirical support for quantifying control premiums and is a trusted and widely used source for control premium reference. Hence, it is considered fair and reasonable to exclude negative premiums and in line with market practice.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account the two factors, including the DLOM and control premium. The calculation of the market value of the 70% equity interest in the Target as at the Valuation Date is as follows:

	31 March 2022
Trailing 12 months EBITDA of the Target*	141,303,000
Adjusted EV/EBITDA Ratio	5.17
Enterprise Value of the Target	**730,786,820**
Add: Cash and cash equivalents*	48,781,000
Less: Preferred Equity*	—
Less: Minority Interest*	—
Less: Borrowing Debt*	—
100 Percent Equity Interest in the Target (marketable, non-controlling)	**779,567,820**
Add: Control Premium (33.90%)	264,273,491
100 Percent Equity Interest in the Target (marketable, controlling)	**1,043,841,311**
Less: Discount for Lack of Marketability (15.80%)	(164,926,927)
100 Percent Equity Interest in Target (non-marketable, controlling)	**878,914,384**
Fair Value of 70 Percent Equity Interest in Target (Rounded)	**615,240,000**

Note: The trailing 12 months EBITDA of the Target, cash and cash equivalents, preferred equity minority interest and borrowing debt were based on the audited financial figures for the twelve months ended 31 December 2021 extracted from the accountants' report.

VALUATION COMMENTS

The valuation of the market value of equity interest in the Company requires consideration of all relevant factors affecting the operation of the business related to the Company and its ability to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

— The nature of the business;

— The financial condition of the business and the economic outlook in general, and;

— The financial and business risk of the enterprise including the continuity of income and the projected future results.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. In particular, details about the assumptions can be found under the heading "Assumptions" in this Report. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

Commentary on the Impact of Novel Coronavirus COVID-19 on Valuation

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, it has come to our attention that the outbreak of Novel Coronavirus disease (COVID-19) has caused significant disruption to economic activities around the world. This disruption has increased the risk towards the achievability of the financial projections/assumptions. It may also have a negative impact towards investment sentiment, and hence any form of required rate of return as well as liquidity of any asset. As of the Report Date, it is uncertain how long the disruption will last and to what extent it will affect the economy. As a result, it has caused volatility and uncertainty that values may change significantly and unexpectedly even over short periods. The period required to negotiate a transaction may also extend considerably beyond the normally expected period, which would also reflect the nature and size of the asset. Readers are reminded that we do not intend to provide an opinion of value as of any date after the Valuation Date in this Report.

OPINION OF VALUE

Based on the results of our investigations and analyses outlined in this report, we are of the opinion that the market value of 70 percent equity interest in the Target as at the Valuation Date is reasonably stated as follows:

Yantai Nanshan University	**Market Value** *(RMB)*
70 Percent Equity Interest	615,240,000

LIMITING CONDITIONS

This report and opinion of value are subject to our Limiting Conditions as attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the Company's/engagement parties' analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the Company/engagement parties.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the Board of the Company/engagement parties have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the Company/engagement parties (if any) because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results (if any) is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for internal use purpose. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent. Even with our prior written consent for such, we are not liable to any third party except for our client for this report. Our client should remind of any third party who will receive this report and the client will need to undertake any consequences resulted from the use of this report by the third party. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

15. This exercise is premised in part on the historical financial information and future forecast (if any) provided by the management of the Company/engagement parties and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as financing or transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

17. The management or staff of the Company/engagement parties and/or its representatives have confirmed to us that the transaction or themselves or the parties involved in the pertained assets or transaction are independent to our firm and Jones Lang LaSalle Corporate Appraisal and Advisory Limited in this valuation or calculation exercise. Should there be any conflict of interest or potential independence issue that may affect our independency in our work, the Company/engagement parties and/or its representatives should inform us immediately and we may need to discontinue our work and we may charge our fee to the extent of our work performed or our manpower withheld or engaged.

VALUERS' PROFESSIONAL DECLARATION

The following valuers certify, to the best of their knowledge and belief, that:

— Information has been obtained from sources that are believed to be reliable. All facts which have a bearing on the value concluded have been considered by the valuers and no important facts have been intentionally disregarded.

— The reported analyses, opinions, and conclusions are subject to the assumptions as stated in the report and based on the valuers' personal, unbiased professional analyses, opinions, and conclusions. The valuation exercise is also bounded by the limiting conditions.

— The reported analyses, opinions, and conclusions are independent and objective.

— The valuers have no present or prospective interest in the asset that is the subject of this report, and have no personal interest or bias with respect to the parties involved.

— The valuers' compensation is not contingent upon the quantum of the value assessed, the attainment of a stipulated result, the occurrence of a subsequent event, or the reporting of a predetermined value or direction in value that favours the cause of the client.

— The analyses, opinions, and conclusions were developed, and this report has been prepared, in accordance with the International Valuation Standards published by the International Valuation Standards Council.

— The under mentioned persons provided professional assistance in the compilation of this report.

Simon M.K. Chan
Executive Director

Hunter Z.W. He
Senior Director

Scott C.Y. Zheng
Manager

Eugene Y.Z. Zhou
Senior Manager

EXHIBIT A — VALUATION RESULT

International Alliance Financial Leasing Co., LTD
70 Percent Equity Interest in Yantai Nanshan University
Valuation Date: 2022/03/31

Item		*Notes*	Unit	Value
EBITDA of the Company	2021/1/1至2021/12/31 稅息折舊及攤銷前利潤	1	RMB	141,303,000
Adjusted EV/EBITDA Ratio	企業價值倍數	2		5.17
Enterprise Value of the Target			**RMB**	**730,786,820**
Add: BS-Cash and cash equivalents				48,781,000
Less: BS-Preferred Equity				—
Less: BS-Minority Interest				—
Less: BS-Borrowing Debt				—
100 Percent Equity Interest in Target (marketable, non-controlling)	**100%股權價值（可轉讓，無控制權）**		**RMB**	**779,567,820**
Add: Control Premium 33.90%	控制權溢價	3		264,273,491
100 Percent Equity Interest in Target (marketable, controlling)	**100%股權價值（可轉讓，有控制權）**		**RMB**	**1,043,841,311**
Less: Discount for Lack of Marketability 15.80%	流動性折扣	4		(164,926,927)
100 Percent Equity Interest in Target (non-marketable, controlling)	**100%股權價值（不可轉讓，有控制權）**		**RMB**	**878,914,384**
Client's equity interest in Target				**70%**
Market Value of 70 Percent Equity Interest in Target (Rounded)	**70%股權市場價值**		**RMB**	**615,240,000**

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular 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 circular misleading.

2. INTERESTS OF DIRECTORS

2.1 Interests in shares, underlying shares and debentures of the Company and its associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company and their associates in the Shares, underlying Shares and debentures of the Company or associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to herein, or (iii) were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares/underlying Shares of the Company

Name of Director/ chief executive	Capacity/Nature of interest	Number and Class of Shares[(1)]	Percentage of interest in the Company
Mr. Li Luqiang (李璐強)	Interested in controlled corporation[(2)]	7,881,797 Shares (L)	0.53%
	Beneficial Owner	621,000 Shares (L)	0.04%

Notes:

(1) The letter "L" denotes the person's long positions in the Shares.

(2) The Company is owned as to approximately 0.53% by RongJin Enterprise Management & Consulting Co., Ltd. ("**RongJin**"). RongJin is wholly owned by Beijing Xinlian Rongjin Enterprise Management & Consulting Co., Ltd.* (北京信聯融金企業管理諮詢有限公司), which is in turn wholly owned by Mr. Li Luqiang. Mr. Li Luqiang is therefore deemed to be interested in the Shares in which RongJin is interested pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company and/or any of their respective associates had any interest and short position in the Shares, underlying Shares and/or debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or to the Model Code.

2.2 Interests in assets, contracts or arrangements of the Enlarged Group

None of the Directors had any direct or indirect interest in the promotion of, or in any assets which have been, within the years preceding the issue of this circular, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, which was subsisting and was significant in relation to the business of the Enlarged Group.

2.3 Competing Businesses

So far as the Directors are aware, as at the Latest Practicable Date, none of the Directors and their respective associates had an interest in any business which competes, or are likely to compete, either directly or indirectly, with the business of the Enlarged Group which would require disclosure under the Listing Rules.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the interests of the substantial Shareholders, other than the Directors or their respective associate(s), in the Shares as recorded in the register of interests in Shares and short positions required to be kept under section 336 of the SFO were as follows:

Long Position in Shares

Name	Capacity/ Nature of Interest	Number and class of Shares(1)	Percentage of interest in our Company
Union Capital	Beneficial owner	768,475,221 Shares (L)	51.23%
Ms. Sui(2)	Interest in controlled corporation	768,475,221 Shares (L)	51.23%
Mr. Song Jianbo(3)	Interest of spouse	768,475,221 Shares (L)	51.23%

Name	Capacity/ Nature of Interest	Number and class of Shares[(1)]	Percentage of interest in our Company
PA Investment Funds SPC ("**PA Investor**")[(4)]	Beneficial owner	147,997,120 Shares (L)	9.87%
Ping An of China Securities (Hong Kong) Company Limited[(4)]	Interest in controlled corporation	147,997,120 Shares (L)	9.87%
Ping An Securities Co., Ltd.[(4)]	Interest in controlled corporation	147,997,120 Shares (L)	9.87%
China Ping An Trust Co., Ltd.[(4)]	Interest in controlled corporation	147,997,120 Shares (L)	9.87%
Ping An Insurance (Group) Company of China, Ltd. ("**Ping An Insurance**")[(4)]	Interest in controlled corporation	147,997,120 Shares (L)	9.87%

Notes:

(1) The letter "L" denotes the person's long positions in the Shares.

(2) Union Capital is wholly owned by Ms. Sui. Ms. Sui is therefore deemed to be interested in the Shares in which Union Capital is interested pursuant to the SFO.

(3) Mr. Song Jianbo is the spouse of Ms. Sui. Mr. Song Jianbo is therefore deemed to be interested in the Shares in which Ms. Sui is interested pursuant to the SFO.

(4) PA Investor was established as a segregated portfolio company and 100% of the management shares in PA Investor are owned by Ping An of China Securities (Hong Kong) Company Limited (中國平安證券(香港)有限公司) which was, in turn wholly-owned by Ping An Securities Co., Ltd.* (平安證券股份有限公司), which was then owned by Ping An Insurance as to approximately 40.96% and owned by China Ping An Trust Co., Ltd. (平安信託有限責任公司) as to approximately 55.7%, which was owned by Ping An Insurance as to approximately 99.9%. Ping An of China Securities (Hong Kong) Company Limited, Ping An Securities Co., Ltd., China Ping An Trust Co., Ltd. and Ping An Insurance are therefore be deemed, or taken to be interested in the Shares in which PA Investor is interested pursuant to the SFO.

As at the Latest Practicable Date, save as disclosed above, no other persons had any interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Enlarged Group which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Enlarged Group within the two years preceding the date of this circular and are or may be material.

(a) the sale and purchase agreement dated 22 January 2021 entered into between Baoyin Alliance Limited, Bank of Utah as owner trustee and for the benefit of a wholly-owned subsidiary of the Company (as seller) and Avjet Global Sales, LLC (as buyer) in respect of a Gulfstream GV-SP (G550) aircraft;

(b) the acquisition agreement dated 6 July 2022 entered into between the Company, Longkou Zhimin, Mr. Song, Nanshan Group and Target College in respect of the control of the Target College and 70.0% equity interest in the designated School Sponsor;

(c) the framework supply agreement dated 6 July 2022 entered into between the Target College and Nanshan Group in respect of provision of services including but not limited to staff training and venue rental services by the Target College to Nanshan Group and its subsidiaries and/or associates;

(d) the framework supply agreement dated 6 July 2022 entered into between the Target College and Longkou Nanshan in respect of provision of services including but not limited to staff training and venue rental services by the Target College to Longkou Nanshan and its subsidiaries and/or associates;

(e) the framework supply agreement dated 6 July 2022 entered into between the Target College and Longkou Management in respect of provision of services including but not limited to staff training and venue rental services by the Target College to Longkou Management and its subsidiaries and/or associates;

(f) the framework supply agreement dated 6 July 2022 entered into between the Target College and Nanshan Development in respect of provision of services including but not limited to staff training and venue rental services by the Target College to Nanshan Development and its subsidiaries and/or associates;

(g) the framework procurement agreement dated 6 July 2022 entered into between the Target College and Nanshan Group in respect of the provision of certain goods and services by Nanshan Group and its subsidiaries and/or associates to the Target College;

(h) the framework procurement agreement dated 6 July 2022 entered into between the Target College and Longkou Nanshan in respect of the provision of certain goods and services by Longkou Nanshan and its subsidiaries and/or associates to the Target College; and

(i) the framework procurement agreement dated 6 July 2022 entered into between the Target College and Nanshan Development in respect of the provision of certain goods and services by Nanshan Development and its subsidiaries and/or associates to the Target College.

6. MATERIAL LITIGATION

As at the Latest Practicable Date, the Enlarged Group was not engaged in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened by or against the Enlarged Group.

7. EXPERTS AND CONSENTS

The following is the name and qualification of the experts who have provided advice which is contained or referred to in this circular:

Name	Qualification
SHINEWING (HK) CPA Limited	Certified public accountants
Commerce & Finance Law Offices	Legal advisers to the Company as to PRC laws
Frost & Sullivan International Limited	Independent industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent valuer
Gram Capital Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its reports, letters and/or opinions (as the case may be) and/or references to its name and/or summaries of opinions included herein in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of such experts has any equity interest in the Company or any of its 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 its subsidiaries.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirm that there had been no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial results of the Company were made up.

9. MISCELLANEOUS

(a) The registered office of the Company is situated at Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Island.

(b) The principal place of business in Hong Kong is Unit 2602, 26th Floor, One Hennessy, No.1 Hennessy Road, Wan Chai, Hong Kong.

(c) The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Mr. Yuen Kin Shan. He is a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

(e) The English text of this circular shall prevail over the Chinese text for the purpose of interpretation, except that if there is any inconsistency between the Chinese names of PRC entities, departments, facilities or titles mentioned in this circular and their English translation, the Chinese version shall prevail.

(f) As at the Latest Practicable Date, other than the Listing on the Stock Exchange, no part of the Shares or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought.

(g) No commissions, discounts, brokerages or other special terms have been granted within the two years immediately preceding the date of this circular in connection with the issue or sale of any capital of any member of the Group.

10. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the Stock Exchange's website (www.hkexnews.com.hk) and the Company's website (http://www.iaf-leasing.com/), from the date of this circular up to and including the date of the EGM:

(a) the restated and amended memorandum and articles of association of the Company;

(b) the Accountants' Report on the Target College prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix I to this circular;

(c) the accountant's report on the unaudited pro forma financial information of the Enlarged Group prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix III to this circular;

(d) a copy of each of the material contracts referred to in the section headed "General Information — 5. Material Contracts" in this Appendix;

(e) the written consents referred to in the section headed "General Information — 7. Experts and Consents" in this Appendix;

(f) the annual reports of the Company for the years ended 31 December 2019, 2020 and 2021;

(g) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 60 to 61 of this circular;

(h) the letter from Gram Capital Limited, the text of which is set out on pages 62 to 91 of this circular;

(i) the property valuation report, the text of which is set out in Appendix IV to this circular;

(j) the business valuation report, the text of which is set out in Appendix V to this circular;

(k) the industry report prepared by Frost & Sullivan;

(l) the legal opinion issued by the PRC Legal Advisers; and

(m) this circular.

INTERNATIONAL ALLIANCE FINANCIAL LEASING CO., LTD.

国 际 友 联 融 资 租 赁 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1563)

NOTICE OF EGM

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of International Alliance Financial Leasing Co., Ltd. (the "**Company**") will be held at 13th Floor, T4, Qiaochengfang, No. 4080, Qiaoxiang Road, Nanshan District, Shenzhen, Guangdong, PRC on Thursday, 18 August 2022 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions. Unless otherwise indicated, capitalised terms used in this notice shall have the same meanings as those defined in the circular dated 3 August 2022 issued by the Company (the "**Circular**"):

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the Acquisition Agreement and the transactions contemplated thereunder be and are hereby confirmed, approved, authorised and ratified; and

   (b) any one Director be and is hereby authorised on behalf of the Company to do all such acts and things and execute all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his sole opinion and absolute direction may consider necessary, appropriate or desirable to implement or give effect to the Acquisition Agreement and the transactions contemplated thereunder."

2. "**THAT**:

   (a) the Structured Contracts and the transactions contemplated thereunder (including the Contractual Arrangements) be and are hereby confirmed, approved, authorised and ratified; and

   (b) any one Director be and is hereby authorised on behalf of the Company to do all such acts and things and execute all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his sole opinion and absolute direction may consider necessary, appropriate or desirable to implement or give effect to the Structured Contracts and the transactions contemplated thereunder (including the Contractual Arrangements)."

3. "**THAT**:

(a) the Framework Procurement Agreements, the transactions contemplated thereunder as well as the relevant annual caps be and are hereby confirmed, approved, authorised and ratified; and

(b) any one Director be and is hereby authorised on behalf of the Company to do all such acts and things and execute all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his sole opinion and absolute direction may consider necessary, appropriate or desirable to implement or give effect to the Framework Procurement Agreements and the transactions contemplated thereunder."

By Order of the Board
International Alliance Financial Leasing Co., Ltd.
Jiao Jianbin
Non-executive Director

Hong Kong, 3 August 2022

Principal Place of Business in Hong Kong

Unit 2602, 26th Floor, One Hennessy
No. 1 Hennessy Road
Wan Chai
Hong Kong

Notes:

1. Any Shareholder entitled to attend and vote at the EGM convened by the above notice is entitled to appoint another person as his proxy to attend and vote instead of him. A Shareholder who is the holder of two or more Shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company. A form of proxy for use at the EGM is enclosed herewith.

2. Where there are joint registered holders of any Share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.

3. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

4. For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 15 August 2022 to Thursday, 18 August 2022, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for attendance of the meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (if the documents will be lodged before 15 August 2022) or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (if the documents will be lodged on or after 15 August 2022), for registration no later than 4:30 p.m. on Friday, 12 August 2022.

5. To be valid, the form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Company's branch share registrar in Hong Kong (if the documents will be lodged before 15 August 2022) or 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong (if the documents will be lodged on or after 15 August 2022), Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the EGM (i.e. not later than 10:30 a.m. on Tuesday, 16 August 2022) or any adjournment thereof (as the case may be).

6. Delivery of the form of proxy will not preclude a shareholder from attending and voting in person at the EGM or any adjourned meeting or upon the poll concerned and, in such event, the instrument appointing a proxy will be deemed to be revoked.

7. A circular containing, among others things, details of the Acquisition Agreement, the Structured Contracts and the Framework Procurement Agreements and the respective transactions contemplated thereunder as well as the relevant annual caps under the Framework Procurement Agreements, has been despatched to the Shareholders.

8. As at the date of this notice of EGM, the executive Directors are Mr. Li Luqiang and Mr. Liu Zhenjiang, the non-executive Director is Mr. Jiao Jianbin; and the independent non-executive Directors are Mr. Liu Changxiang, Mr. Liu Xuewei, Mr. Jiao Jian and Mr. Shek Lai Him Abraham.