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## INDUSTRY OVERVIEW

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*Certain facts, statistics and data presented in this section and elsewhere in this document have been derived, in part, from various government official publications as well as the commissioned report from Ipsos, an Independent Third Party. Whilst our Directors have taken all reasonable care to ensure that the relevant facts and statistics are accurately reproduced from these official government sources, such facts and statistics have not been independently verified by our Group or any of its respective affiliates or advisers, nor by the Sponsor, the [REDACTED], the [REDACTED], the Underwriters or any of its affiliates or advisers or any other party involved in the [REDACTED]. Our Directors have no reason to believe that such facts, statistics and data presented in this section is false or misleading or that any fact has been omitted that would render such facts, statistics and data false or misleading. In this section, other than the Industry Report, information regarding the relevant industries has been recited or extracted from certain articles, reports or publications, and their preparations were not commissioned or funded by our Group. Our Directors confirmed that after taking reasonable care, there is no adverse change in the market information since the date of the Industry Report which may qualify, contradict or have an impact on the information in this section.*

### REPORT CONDUCTED BY IPSOS

In connection with the [REDACTED], we commissioned an independent professional market research company, Ipsos, to assess the industry development trends, market demand and competitive landscape of the private tutoring services industry in Hong Kong for the period from 2009 to 2019. We have incurred total fee and expenses of approximately HK\$438,000 for the preparation of the Industry Report. Ipsos conducts research on market profiles, market sizes and market share and performs segmentation analysis, distribution and value analysis, competitor tracking and corporate intelligence. The information and statistics set forth in this section have been extracted from the Industry Report. The payment of such amount was not conditional on our Group’s successful [REDACTED] or on the results of the Industry Report.

The following assumptions were made in the analysis in the Industry Report: (i) the supply and demand of products and services in the private tutoring services industry in the global market to be stable and without hold-up over the forecast period; and (ii) there is no external shock such as financial crisis or natural disasters in the global market to affect the demand and supply for the products and service of the private tutoring services industry in Hong Kong over the forecast period.

Based on the review and analysis of the above basis and assumptions, nothing has come to the attention of our Directors and the Sponsor to indicate that such information is misleading. As at the Latest Practicable Date, our Directors confirm that to the best of their knowledge and information and taking reasonable care, there is no adverse change in the market information since the date of the Industry Report, which may qualify, contradict or have an impact on the information in this section.

### OVERVIEW OF THE PRIVATE TUTORING SERVICES INDUSTRY IN HONG KONG

#### Private supplementary education for primary and secondary school students in Hong Kong

Private tuition companies refer to service providers that provide private tuition services to students, while private tuition centres refer to the branches owned by the private tuition companies and which serve as a venue for providing tutoring services. A private tuition company operates at least one private tuition centre for service provision. In addition, private tuition companies who operate two or more centres (branches) located in Hong Kong are defined as chained private tuition companies. The private tuition centres operated by the chained private tuition companies are defined as chained private tuition centres.

Normally, the key customer groups are primary students and secondary students. There is a wide variation of private tutoring services provided that cater to different types of customers with different budgets and expectations on the services received. In terms of class size, some private

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tutoring companies offer small-class teaching with less than 15 students per class, whereas others offer larger class teaching. In terms of delivery format, private tutoring companies either provide live classes with a tutor, or video classes with the presence of a teaching assistant.

*The primary tutoring service market in Hong Kong is a highly competitive and fragmented. It is also considered a mature market.*

In 2015/16 academic year, there were approximately 1,317 private tutoring companies and 2,051 private tutoring centres offering primary tutoring services in Hong Kong. The primary tutoring services market is highly competitive. Price competition is moderate and companies generally compete on reputation and the quality of services offered. The primary tutoring services market is more fragmented than the secondary tutoring services market, with only 10.6% companies operated as chained business in the academic year 2015/16.

The industry revenue grew at a CAGR of approximately 3.7% during the academic years 2009/10 to 2014/15. It can be concluded that the primary tutoring services market is a growing market, where the estimated industry revenue will grow at a faster rate during the forecast period of academic years 2015/16 to 2018/19, at a CAGR of approximately 5.4%. With an expectation that the growth rate of the number of Chained Private Tutoring Centres is higher than the growth rate of the number of individual private tutoring centres, it can be concluded that the industry will become more consolidating in future. The chained companies will continue to expand and remain more competitive than the individual private tutoring companies that offer primary tutoring services.

*The secondary tutoring services market is highly competitive, but less fragmented than the primary tutoring market.*

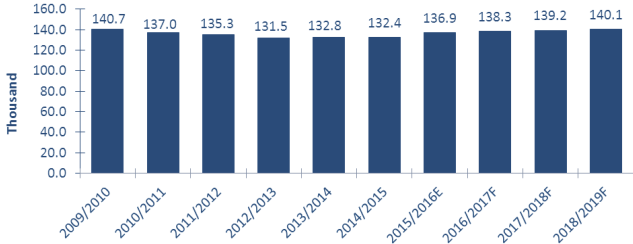
There were approximately 1,110 private tutoring companies and 1,775 private tutoring centres offering secondary tutoring services in the 2015/16 academic year. The secondary tutoring services market is highly competitive and companies are competing on reputation and the quality of services offered. However, in contrast to the primary tutoring services market, the reputation of companies are of paramount importance in the industry. Secondary school students in Hong Kong often enrol in courses taught by famous tutors who are well-known in helping students to achieve good academic results. As a result, the secondary tutoring services market is less fragmented than the primary tutoring services market, with approximately 11.4% companies are operated as chained business in the academic year 2015/16.

The industry revenue experienced a high growth during the academic years 2009/10 to 2014/15, at a CAGR of approximately 7.3%. It can be concluded that the secondary tutoring services market is a mature market, where the estimated industry revenue is expected to increase at a smaller CAGR of approximately 2.7% over the next four academic years due to the continuous drop in the number of secondary school students. The industry is expected to become more consolidated in future, due to the estimated higher growth rate of Chained Private Tutoring Centres than individual private tutoring centres during the forecast period. The large Chained Private Tutoring Companies are expected to have a higher capability in both attracting new customers and retaining existing students.

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**OVERVIEW OF THE PRIVATE TUTORING SERVICES INDUSTRY FOR PRIMARY SCHOOL STUDENTS IN HONG KONG**

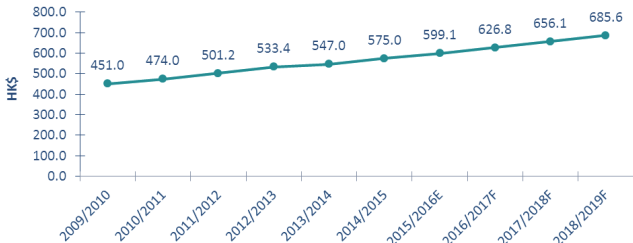
*Number of primary tutoring students in Hong Kong from 2009/10 to 2018/19*



Notes: The forecast is based on (i) the historical growth momentum of the primary tutoring students and the private consumption expenditure on educational services and (ii) the estimated number of primary school students in Hong Kong.

Source: Industry Report

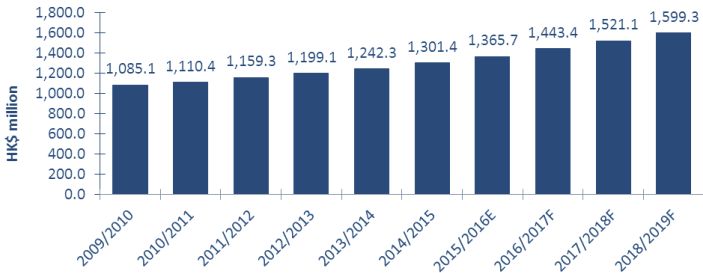
*Average monthly tuition fee of primary school students in Hong Kong from 2009/10 to 2018/19*



Notes:

1. The above tuition fee trend refers to the average monthly tuition fee per student. Calculation is based on the assumption that the courses provide 4 lessons per month with 1 to 1.5 hours per lesson.
2. The above forecast is based on (i) the historical growth momentum of the private tuition teacher’s payroll and the private consumption expenditure on educational services and (ii) the estimated number of primary school students in Hong Kong.

*Market sales value of primary tutoring services in Hong Kong from 2009/10 to 2018/19*



Notes: The forecast is based on (i) the historical growth momentum of the market sales value, number of primary tutoring students and the private consumption expenditure on educational services and (ii) the estimated number of primary school students in Hong Kong.

Source: Industry Report

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During the academic years 2009/10 to 2014/15:

- The number of primary school students decreased from approximately 344,700 students to approximately 329,300 (or CAGR of approximately -0.9%)
- The number of primary tutoring students experienced a slight drop from approximately 140,700 to 132,400 (or CAGR of approximately -1.2%);
- The average monthly tuition fee of primary school students in Hong Kong experienced a continual growth from approximately HK\$451.0 to HK\$575.0 (or CAGR of approximately 5.0%); and
- Market sales value of primary tutoring services increased steadily from HK\$1,085.1 million to HK\$1,301.4 million (or CAGR of approximately 3.7%).

The longer working hours of parents in Hong Kong and the growth of cross-border students from mainland China have subsequently increased the demand for private tutoring services for primary school students. According to a survey conducted by The Hong Kong Federation of Youth Groups in 2012, approximately 22.1% of primary school students have enrolled in private tutoring courses when they are studying at primary level three or below. However, due to the decreased number of primary school students during the period, the number of primary tutoring students experienced a slight drop. Despite the drop in number of primary tutoring students, the market sales value of primary tutoring services actually increases, mainly contributed by a continual growth in average monthly tuition fee. A rise in the operation cost of private tutoring centres is the major reason for such growth. Other factors including new parenting practices which focus more on the academic performance and the on-going growth in cross-border students also drove the tuition fee upwards.

Going forward, it is expected that during the academic years 2015/2016 to 2018/2019F:

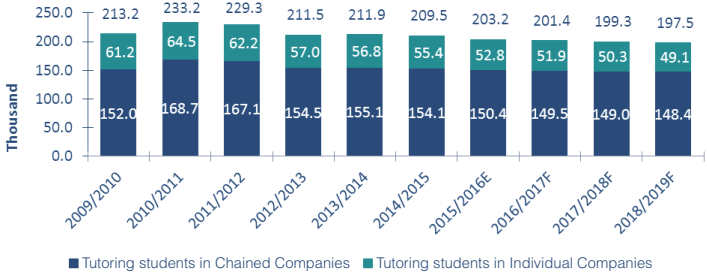
- The number of primary school students is expected to increase from approximately 337,600 students to approximately 378,700 (or CAGR of approximately 3.9%)
- The number of primary tutoring students is expected to increase from approximately 136,900 to 140,100 (or CAGR of approximately 0.8%);
- The average monthly tuition fee of primary school students in Hong Kong is expected to grow from approximately HK\$599.1 to HK\$685.6 (or CAGR of approximately 4.6%); and
- Market sales value of primary tutoring services is expected to increase from HK\$1,365.7 million to HK\$1,599.3 million (or CAGR of approximately 5.4%).

It is predicted that the growth of the number of private tuition centres is stronger than the growth of the number of private tuition companies. This could be explained by the rapid expansion of chained private tuition companies in the future. The forecasted number of primary school students is also expected to increase due to the stable and increasing birth rate in the early 2000's, when the economy in Hong Kong started to recover from the 1997 Asian financial crisis, together with the popularization of the One-Way Permit (“OWP”) Scheme, which allows Mainland spouse and accompanying children of a Hong Kong resident to settle in Hong Kong. The average monthly tuition fee is expected to grow at a fast rate as it is highly likely that the trend of sending children to private tutoring centres is expected to be sustained in the future. As a result, market sales value of primary tutoring services in Hong Kong is expected to increase at a faster pace during the forecast period.

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**OVERVIEW OF PRIVATE TUTORING SERVICES INDUSTRY FOR SECONDARY SCHOOL STUDENTS IN HONG KONG**

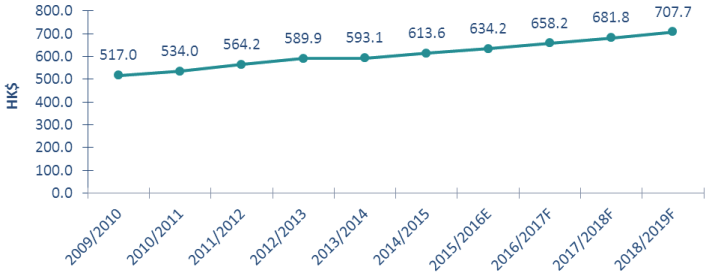
*Number of secondary tutoring students in Hong Kong from 2009/10 to 2018/19*



Notes: The forecast is based on (i) the historical growth momentum of the secondary tutoring students and the private consumption expenditure on educational services and (ii) the estimated number of secondary school students in Hong Kong.

Source: Industry Report

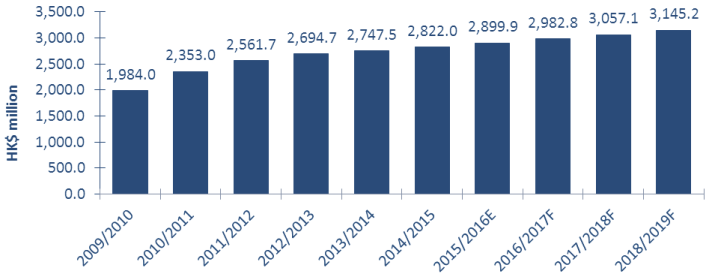
*Average monthly tuition fee of secondary school students in Hong Kong from 2009/10 to 2018/19*



- Notes:
- The above tuition fee trend refers to the average monthly tuition fee per student. Calculation is based on the assumption that the courses provide 4 lessons per month with 1 to 1.5 hours per lesson.
  - The above forecast is based on (i) the historical growth momentum of the private tuition teachers’ payroll and the private consumption expenditure on educational services and (ii) the estimated number of primary school students in Hong Kong.

Sources: Industry Report

*Market sales value of secondary tutoring services in Hong Kong from 2009/10 to 2018/19*



Notes: The forecast is based on (i) the historical growth momentum of the market sales value, number of secondary tutoring students and the private consumption expenditure on educational services and (ii) the estimated number of secondary school students in Hong Kong.

Source: Industry Report

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During the academic years 2009/10 to 2014/15:

- The number of secondary school students decreased from approximately 469,500 students to approximately 373,100 (or CAGR of approximately -4.5%)
- The number of secondary tutoring students enrolled in Chained Private Tutoring Companies increased from approximately 152,000 to 154,100 (or CAGR of approximately 0.3%), while the number of secondary tutoring students enrolled in individual private tutoring companies decreased from approximately 61,200 to 55,400 (or CAGR of approximately -2.0%);
- The average monthly tuition fee of secondary school students in Hong Kong experienced a continual growth from approximately HK\$517.0 to HK\$613.6 (or CAGR of approximately 3.5%); and
- Market sales value of secondary tutoring services increased steadily from HK\$1,984.0 million to HK\$2,822.0 million (or CAGR of approximately 7.3%).

According to a survey conducted by The Hong Kong Federation of Youth Groups in 2012, over 50.0% of secondary school students have enrolled in private tutoring courses. However, the number of secondary school students in Hong Kong has gradually decreased, likely due to the fall in fertility rate in the late 1990's, when the general public had reservations towards the handover of the sovereignty of Hong Kong to Mainland China. The 1997 Asian financial crisis also created a pessimistic attitude which therefore possibly led to a drop in the fertility rate during that period. Despite the drop in number of secondary tutoring students, the market sales value of secondary tutoring services actually increases, mainly contributed by a continual growth in average monthly tuition fee. Similar to the private tutoring centres that offer services to primary school students, the rise in the operation cost of private tutoring centres is the major reason for such growth. Other factors including new parenting practices which focus more on the academic performance and the on-going growth in cross-border students also drove the tuition fee upwards.

Going forward, it is expected that during the academic years 2015/2016 to 2018/2019F:

- The number of secondary school students is expected to decrease from approximately 352,600 students to approximately 306,200 (or CAGR of approximately -4.6%)
- The number of secondary tutoring students enrolled in Chained Private Tutoring Companies is expected to decrease from approximately 150,400 to 148,400 (or CAGR of approximately -0.4%), while the number of secondary tutoring students enrolled in individual private tutoring companies is expected to decrease from approximately 52,800 to 49,100 (or CAGR of approximately -2.4%);
- The average monthly tuition fee of secondary school students in Hong Kong is expected to grow from approximately HK\$634.2 to HK\$707.7 (or CAGR of approximately 3.7%); and
- Market sales value of secondary tutoring services is expected to increase from HK\$2,899.9 million to HK\$3,145.2 million (or CAGR of approximately 2.7%).

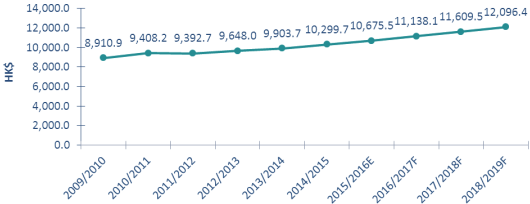
The total number of secondary tutoring students is expected to further decrease during the forecast year, in particular, the number of tutoring students enroll in individual companies is expected to decrease at a greater magnitude as secondary school students in Hong Kong tends to enroll in private tutoring courses offered by chained companies. Attending tutorial classes in order to achieve better public exam results is increasingly popular and becoming a social norm. This acts as a demand-driven factor explaining the rise of the average monthly tuition fee for secondary school students in Hong Kong. The increasing market sales value is expected to further increase but at a

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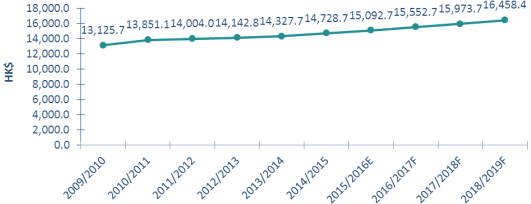
slower pace than the historical period. Although there is a forecast decrease in the number of secondary tutoring students in Hong Kong, there is expected to be a continuous rise in tuition fees, which counteracts the effect of the decreasing number of students.

**TEACHERS’ WAGE**

*Average monthly wage of teachers providing Primary Tutoring Services in Hong Kong from 2009/10 to 2018/19*



*Average monthly wage of teachers providing Secondary Tutoring Services in Hong Kong from 2009/10 to 2018/19*



Notes:

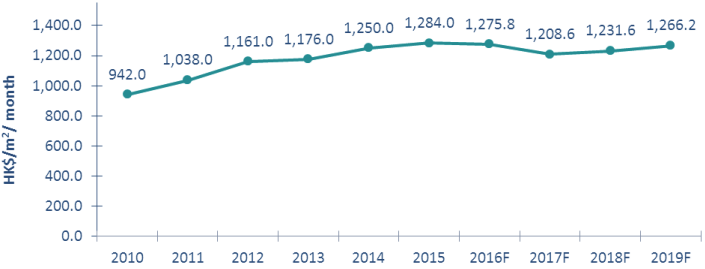
1. To avoid statistical discrepancy, the above wage trend is calculated with reference to fixed monthly wage rates received (i.e. excluding any incentives and commissions).
2. The above forecast is based on (i) the historical growth momentum of the private tuition teachers’ payroll and the private consumption expenditure on educational services and (ii) the estimated number of school students in Hong Kong.

Sources: Industry Report

Inflation is one of the major reasons in explaining the rise in the average monthly wage of the teachers. According to the Census and Statistics Department, the composite CPI (Oct. 2009 – Sep. 2010 = 100) in Hong Kong increased from approximately 100.7 in 2010 to 123.8 in 2015. Expansion of the private tutoring services industry is another reason that increased the average monthly wage of teachers.

**RENT**

*Average monthly rent in the New Territories from 2010 to 2019*



Notes:

1. Average monthly rent in the New Territories refers to the monthly rent (private retail) in the New Territories in Hong Kong.
2. The above forecast is based on the estimated growth rate of monthly rent in New Territories from secondary sources.

Sources: Rating and Valuation Department, HKSAR; Industry Report

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The average monthly rent in the New Territories increased at a CAGR of approximately 6.4% from 2010 to 2015, increasing from HK\$942.0 per m<sup>2</sup> per month to HK\$1,284.0 per m<sup>2</sup> per month during the period. It is estimated that the real estate market in Hong Kong will experience a downward adjustment between 2016 and 2017. It is forecasted that the average monthly rent in the New Territories will decrease at a CAGR of approximately -0.3% from 2016 to 2019, from approximately HK\$1,275.8 per m<sup>2</sup> per month in 2016 to HK\$1,266.2 per m<sup>2</sup> per month in 2019.

The increase in the average monthly rent in the New Territories during the past six years can be explained by the prosperity of the retail market in Hong Kong, increasing the demand for retail space and therefore pushing up the rental price for private retail in the New Territories from 2010 to 2015.

With the expectation of economic slowdown and increase in the unemployment rate in the near future, it is estimated that the real estate market in Hong Kong will experience a downward adjustment between 2016 and 2017. Combined with the slowdown of retail sector, it is anticipated that the average monthly rent in the New Territories will experience a drop from approximately HK\$1,275.8 per m<sup>2</sup> per month in 2016 to HK\$1,208.6 per m<sup>2</sup> per month in 2017. The real estate market is predicted to recover afterwards, with a gradual increase in the average monthly rent in the New Territories forecast in 2018 and 2019.

## COMPETITIVE ANALYSIS OF THE PRIVATE TUTORING SERVICES INDUSTRY IN HONG KONG

### Key Factors of Competition

#### *Quality of education and reputation*

The essence of private tutoring services is in offering supplementary academic support to students, which will help them excel in their studies. Education quality of the private tutoring services is important, as parents expect to see improvements in their children’s studies after enrolment in the tutoring centre. Good reputations are formed by offering satisfactory private tutoring services to students, and the private tutoring centres with better reputations would be seen as offering higher quality of education than their counterparts. Private tutoring services that are unable to deliver significant results would be rejected by consumers, gain a poor reputation, and therefore lose market share.

#### *Course design and format of delivery*

A variety of private tutoring courses, in terms of subjects, class size, duration, and format of delivery (live class or video-recorded lecture) are available in the industry. Course design and format of delivery are crucial in matching customers to services that suit their expectations. Courses that are appropriately designed to fit different consumer’s preferences help private tutoring centres attract students, hence gaining popularity and competitiveness in the market.

#### *Geographical coverage and accessibility*

In order to cater to students who study and reside in different areas of Hong Kong, the geographical coverage of a private tutoring company and the accessibility of the centres are important for a company to maintain competitiveness in the market. An extensive geographical presence means that a company is able to provide private tutoring services in different places in Hong Kong. Easily accessible private tutoring centres are a more attractive option to students as less money and time are required on transportation. As a result, the private tutoring companies with extensive geographical coverage and high accessibility usually attract more students than their counterparts, making the companies become more competitive in the market.



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### *Price of courses*

As the purchase of private tutoring services is normally a mid to long term commitment, price is an important key factors of competition for customers. The private tutoring companies who offer up-to-standard private tutoring services with reasonable prices are in general more competitive.

### **Market analysis**

The following summarises the market drivers, entry barriers, opportunities and threats of the private tutoring services industry:

#### **Market Drivers**

- Introduction of HKDSE
- Working parents sending children to private tutorial centres after school

#### **Entry barriers**

- Reputation
- Recruitment of experienced and qualified teacher
- Obtaining licenses

#### **Opportunities**

- Increasing pressure from acute competition in admission of elite secondary schools and universities
- Increasing working hours for parents introducing new parenting practice
- Demand for private tutoring services from cross-border students

#### **Threats**

- Difficulty in tutor recruitment and retention
- Underqualified private tutoring centres malpractices affecting industry image
- Increasing operating costs

### **Ranking of secondary and primary tutoring service providers**

Set out below are the top ten secondary and primary tutoring service providers in Hong Kong in 2015 in terms of revenue looking at Hong Kong:

#### **Service provider**

*Note 1 & 2*

	Background <i>Note 3</i>	Ranking	Revenue generated in Hong Kong in 2015 <i>HK\$ million</i>	Share of total industry revenue %
Operator A	(i)	1	286.5	6.9
Operator B	(i)	2	170.2	4.1
Operator C	(i)	3	153.9	3.7
Operator D	(i)	4	57.0	1.4
Operator E	(ii)	5	42.9	1.0
Operator F	(i)	6	37.6	0.9
Our Group	—	7	36.2	0.9
Operator G	(ii)	8	35.4	0.9
Operator H	(iii)	9	34.8	0.8
Operator I	(iv)	10	24.7	0.6
Others	—		3,244.1	78.7
<b>Total</b>			<b>4,123.4</b>	<b>100.0</b>

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*Notes:*

(1) The above operators refer the companies and centres who offer primary and secondary tutoring services and are registered with the EDB. For those companies who operated their centres in the same address but registered with different school numbers, the centres are counted as one single identity; vice versa. In addition, Ipsos considers that franchise businesses have a different business model than their counterparts based on the following reasons:

- (1) operating model: franchisees face a lower level of uncertainty when entering the market since the franchiser would generally provide guidance on (i) license application, (ii) centre locations, (iii) leasing arrangements, and (iv) marketing and promotional strategies prior to the centres’ opening. Franchisees operate within a different environment since the franchiser generally dictates (i) the operational guidelines, (ii) recruitment and training of the tutors, and (iii) direction of marketing and promotion.
- (2) education method: franchisees face lower level of flexibility in designing and using different teaching methods and materials. Teaching methods and materials used in franchised private tutoring centres are generally standardised by the franchiser. With reference to the franchised businesses in the industry, it can be concluded that the franchisers are providing “turn-key” solutions to the franchisees, offering necessary support and restrictions to the franchisees.

As a result, the franchisees face different operational environment and different demand from customers. Therefore, the ranking table excludes all the service brands that are involved in franchise business.

- (2) All of such operators have their respective headquarters in Hong Kong.
- (3) The backgrounds of the different competitors may differ with some providing more diverse services while other more focused in certain subjects and some with centres in various locations in Hong Kong and others focused in certain parts of Hong Kong. According to the Industry Report, (i) these competitors offer tutorial classes in different subjects and their private tutoring centres are located in different parts of Hong Kong; (ii) these competitors offer tutorial classes mainly in language subjects and their private tutoring centres are located in different parts of Hong Kong; (iii) this competitor offers tutorial classes mainly in core subjects and its private tuition centres are located in Hong Kong Island and Kowloon; and (iv) this competitor offers tutorial classes in different subjects and its private tuition centres are located in Hong Kong Island and Kowloon.

*Source: Industry Report*

The names of the brand of our major competitors which compete with us are (in alphabetical order): ABC Pathways School, Beacon College, Calvin Sun Education Centre, Ever Learning Educational Centre, Eugenics Add Centre, KC Education Centre, King’s Glory Educational Centre, Modern Education Centre, and Wise Children Education Centre. This list is non-exhaustive. Our Directors believe that we compete favourably with our competitors given our various competitive strengths as detailed in the section headed “Business — Competitive strengths” of this document.