

INDUSTRY OVERVIEW

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SOURCES OF INFORMATION

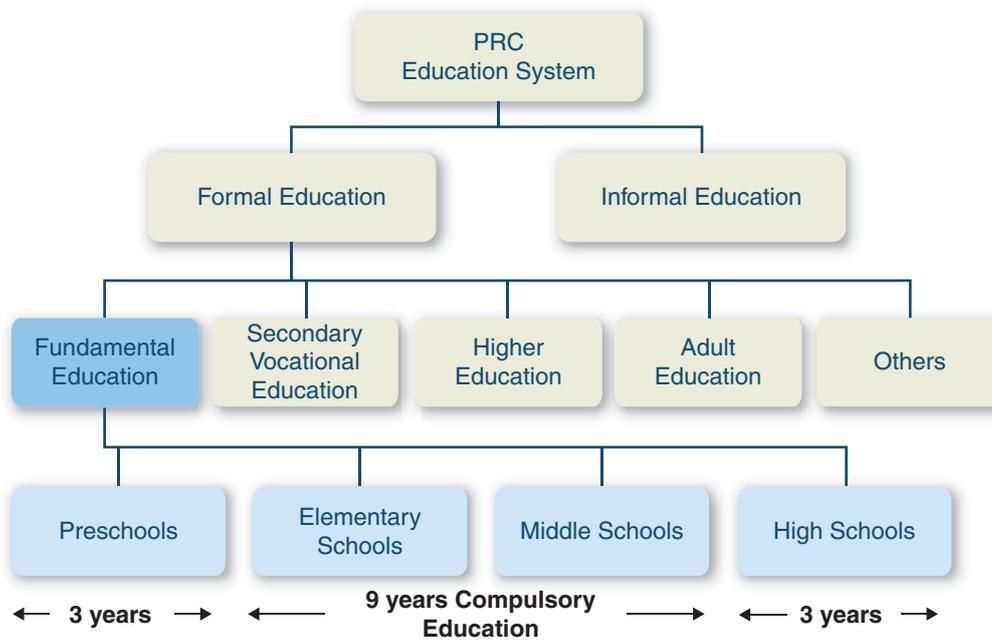
This section includes information from the Frost & Sullivan Report, a report commissioned by us as we believe such information imparts a greater understanding of the industry. Frost & Sullivan is a global consulting company and an independent third party. Founded in 1961, it has 40 offices worldwide with over 2,000 industry consultants, market research analysts and economists. We have agreed to pay a total of RMB780,000 in fees for the preparation of the Frost & Sullivan Report. Figures and statistics provided in this [REDACTED] and attributed to Frost & Sullivan or the Frost & Sullivan Report have been extracted from the Frost & Sullivan Report and published with the consent of Frost & Sullivan. In preparing the Frost & Sullivan Report, Frost & Sullivan conducted both primary and secondary research to obtain information from various sources. Primary research involved conducting interviews with leading industry participants and industry experts; and secondary research involved reviewing company reports, independent research reports and data from Frost & Sullivan’s research database. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan assumed that (i) the PRC’s social, economic and political environment is likely to remain stable and (ii) key industry drivers are likely to continue to affect the market over the forecast period from 2014 to 2017. For the projection of total market size and student enrollment, Frost & Sullivan plotted available historical data against macroeconomic data as well as data with respect to related industry drivers.

INDUSTRY OVERVIEW

OVERVIEW OF THE PRC EDUCATION INDUSTRY

The PRC formal education system is divided into five categories: fundamental education, secondary vocational education, higher education, adult education and others. The key difference between the formal and informal education system is that the formal system enables students to obtain official certificates from the PRC government, whereas the informal system, which includes different kinds of training and learning courses, merely enables students to obtain completion certificates, which may not be officially recognized. The diagram below sets forth the composition of the PRC education system.

Composition of the PRC Education System



Source: Frost & Sullivan Report

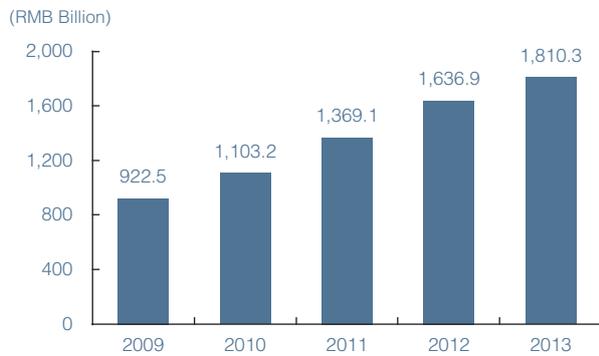
Fundamental education (also known as K-12 education) in China includes three years of preschool, nine years of compulsory education at elementary and middle school, and three years of high school, which is a prerequisite for admission to college and postgraduate studies. Compulsory education is closely regulated by the MOE, including the curriculum and tuition, while preschools and high schools operate with a greater degree of flexibility. Whereas most high schools in China offer their graduates a PRC high school diploma, a small number offer international diplomas such as the International Baccalaureate (IB) diploma as well as Canadian, British and American diplomas. Very few high schools provide their graduates the opportunity to obtain a dual diploma and to be accredited under both the Chinese and the international school systems.

Market size and trends of the PRC fundamental education industry

The PRC fundamental education industry generated total revenues of approximately RMB1,810.3 billion in 2013, increasing from approximately RMB922.5 billion in 2009, representing a CAGR of approximately 18.4% over the period, according to the Frost & Sullivan Report. Total revenues for the PRC fundamental education industry have been calculated by aggregating total PRC government public expenditures allocated to schools in the PRC fundamental education industry, 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, as reported in or derived from statistics compiled by the PRC National Bureau of Statistics of China and set forth in the Frost & Sullivan Report. PRC government public expenditure accounted for approximately 86.8% of the total revenues generated by the PRC fundamental education industry in 2013.

INDUSTRY OVERVIEW

Total Revenues Generated by the PRC Fundamental Education Industry, 2009-2013



Per Capita Expenditure on Fundamental Education, 2009-2013



Source: Frost & Sullivan Report

Despite the decrease in birth rate in China from approximately 1.8% in 1980 to approximately 1.2% in 2013 due to the “one-child policy” according to the National Bureau of Statistics of China, which resulted in a decreasing school-age population, the increase in total revenues generated by the PRC fundamental education industry over this period was primarily driven by increasing per capita expenditure on fundamental education. According to the Frost & Sullivan Report, per capita expenditure per annum on fundamental education has increased from approximately RMB691.3 in 2009 to approximately RMB1,330.4 in 2013, representing a CAGR of approximately 17.8% from 2009 to 2013.

Student enrollment in the PRC fundamental education industry

According to the Frost & Sullivan Report, the number of students enrolled in fundamental education in China reached approximately 201.3 million in 2013, representing a slight decrease of approximately 2.3% compared to 2012. Despite a declining school-age population, the students enrolled in fundamental education is forecasted to achieve moderate growth to approximately 209.8 million in 2017, which is mainly attributable to an increasing enrollment rate, according to the Frost & Sullivan Report.

The diagram below sets forth the number of students enrolled from 2009 to 2013, as well as the forecast of student enrollment from 2014 to 2017.

Total Student Enrollment in Fundamental Education, 2009-2017



Source: National Bureau of Statistics of China; Frost & Sullivan Report

Note: The data in the above diagram is based on statistics as of August 31 of each year.

INDUSTRY OVERVIEW

The following trends are expected to drive student enrollment in the different segments of the PRC fundamental education industry:

- The preschool segment had approximately 38.9 million students enrolled in 2013. This segment has been growing at a CAGR of approximately 10.0% from 2009 to 2013, primarily due to the increase in enrollment rate driven by an increasing awareness among parents of the value that a quality preschool education can provide in enabling students’ performance in elementary school and beyond. It is expected to grow further with a CAGR of approximately 4.3% from 2013 to 2017, according to the Frost & Sullivan Report.
- The elementary school segment had approximately 93.6 million students enrolled in 2013. This segment experienced a CAGR of approximately -1.8% decrease in student enrollment from 2009 to 2013 due to the overall decline in school-age population. However, the elementary school segment is expected to increase moderately with a CAGR of approximately 1.0% from 2013 to 2017 due to the increase of preschools enrollment over the past few years, according to the Frost & Sullivan Report.
- The middle school segment had approximately 44.4 million students enrolled in 2013. This segment experienced a CAGR of approximately -4.9% decrease in student enrollment from 2009 to 2013 due to the overall decline in school-age population. It is expected to continue decreasing slightly with a CAGR of approximately -0.7% from 2013 to 2017, according to the Frost & Sullivan Report.
- The high school segment had approximately 24.4 million students enrolled in 2013. This segment remained stable in relation to student enrollment from 2009 to 2013, and is expected to decrease slightly with a CAGR of approximately -1.2% from 2013 to 2017, according to the Frost & Sullivan Report.

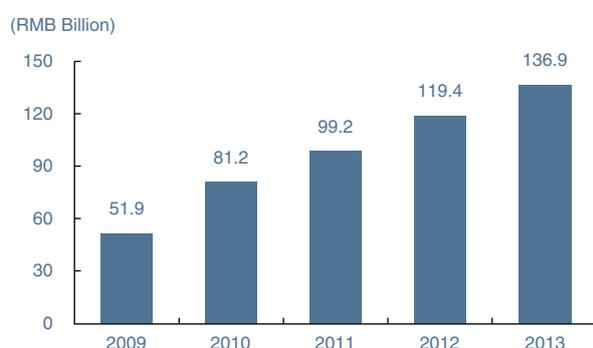
OVERVIEW OF THE PRC PRIVATE EDUCATION INDUSTRY

Private education was first allowed in China in the early 1980s. It experienced a phase of rapid growth in the 1990s, and has since become an important driver of growth in the PRC education industry overall. Private schools have a higher level of operational independence as they do not operate directly under the administration of the government unlike public schools. This allows them to have a broader and more diverse curricula offering, as well as greater flexibility in relation to funding options, such as the level of tuition they charge.

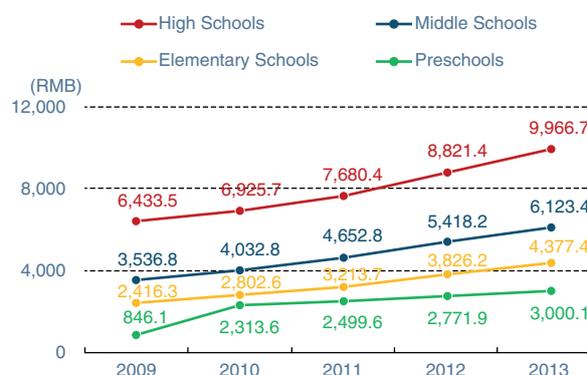
Market size and trends of the PRC private fundamental education industry

The PRC private fundamental education industry generated total revenues of approximately RMB136.9 billion in 2013, increasing from approximately RMB51.9 billion in 2009, representing a CAGR of approximately 27.4% over the period, according to the Frost & Sullivan Report. This rapid growth was primarily driven by parents’ and students’ rising preference for private schools, which resulted in increased enrollment in private schools as well as increased revenues from tuition fees and private investment.

Total Revenues Generated by the PRC Private Fundamental Education Industry, 2009-2013



Per Student Expenditure on Private Fundamental Education, 2009-2013



Source: Frost & Sullivan Report

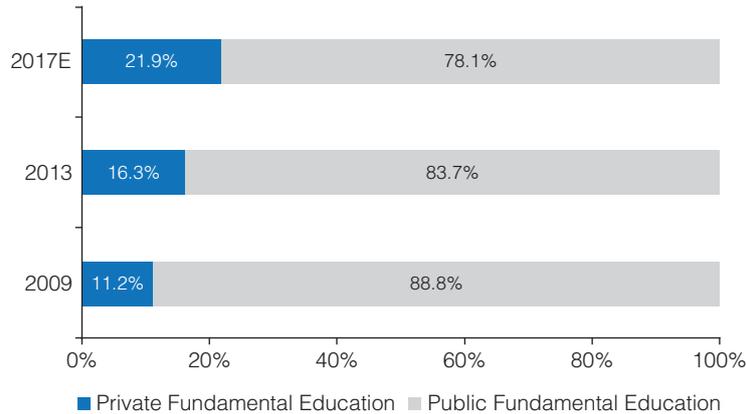
According to the Frost & Sullivan Report, per student expenditure on private fundamental education increased significantly from 2009 to 2013 at a CAGR of approximately 37.2%, 16.0%, 14.7%, and 11.6% for preschools, elementary schools, middle schools and high schools, respectively.

INDUSTRY OVERVIEW

Student enrollment in the PRC private fundamental education industry

According to the Frost & Sullivan Report, the number of students enrolled in private fundamental education in China reached approximately 32.9 million in 2013, representing an increase of approximately 4.8% over the previous year, despite a decrease in overall student enrollment. It is expected to further increase to approximately 45.8 million in 2017, at a CAGR of approximately 8.6% from 2013 to 2017, driven by favorable government policies for private schools and an increasing recognition among parents of the value of private schools. According to the Frost & Sullivan Report, the penetration of private schools in the overall fundamental education system based on student enrollment increased from approximately 11.2% in 2009 to approximately 16.3% in 2013, indicating that more students are choosing to attend private schools instead of public schools. This is expected to further increase to approximately 21.9% in 2017.

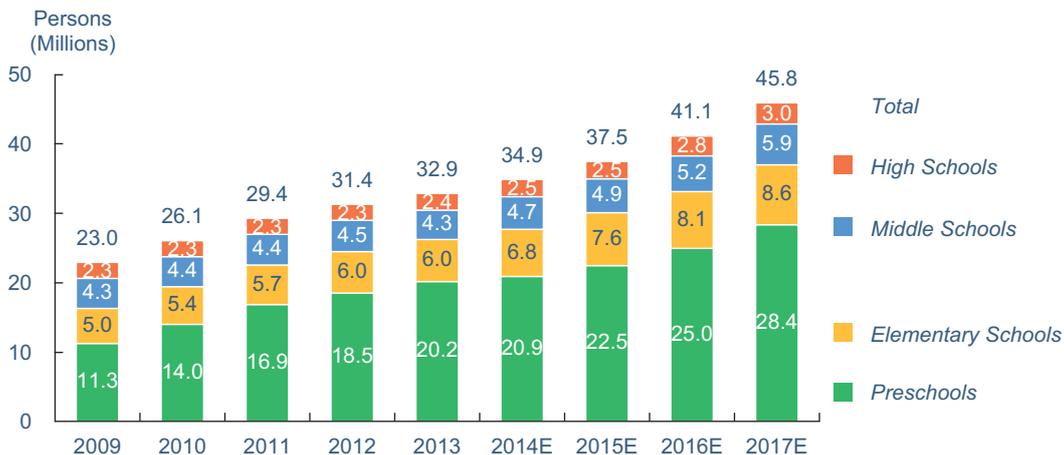
Penetration of Private Schools in the Overall Fundamental Education based on Student Enrollment



Source: Frost & Sullivan Report

The diagram below sets forth the number of students enrolled in private fundamental education from 2009 to 2013, as well as a forecast of student enrollment expected from 2014 to 2017.

Total Student Enrollment in Private Fundamental Education, 2009 to 2017E



Source: National Bureau of Statistics of China; Frost & Sullivan Report

The following trends are expected to drive student enrollment within the different segments of the PRC private fundamental education industry:

- The private preschool segment, as the largest segment of the private K-12 education based on student enrollment, grew to approximately 20.2 million students in 2013, representing a CAGR of approximately 15.5% from 2009 to 2013. It is expected to grow further with a CAGR of approximately 8.9% from 2013 to 2017, primarily driven by the significant shortage of public preschools and the relatively simple administrative requirements and funding sources from the PRC government. In addition, this segment had a penetration rate of approximately 51.9% in 2013.

INDUSTRY OVERVIEW

- Student enrollment in the private elementary school segment grew to approximately 6.0 million in 2013, representing a CAGR of approximately 4.5% from 2009 to 2013. It is expected to grow further with a CAGR of approximately 9.3% from 2013 to 2017, primarily driven by the increasing disposable income in the PRC and the recognition of the value of private schools in early education. In addition, this segment had a penetration rate of approximately 6.4% in 2013.
- Student enrollment in the private middle school segment remained stable with approximately 4.3 million students in 2013, representing a CAGR of approximately -0.1% from 2009 to 2013. However, it is expected to grow with a CAGR of approximately 7.9% from 2013 to 2017, primarily driven by an increasing demand for high quality schools, especially those that provide students with a wide selection of courses, and extensive resources to prepare for overseas education in high schools or higher education. In addition, this segment had a penetration rate of approximately 9.7% in 2013.
- Student enrollment in the private high school segment grew to approximately 2.4 million in 2013, representing a CAGR of approximately 0.6% from 2009 to 2013. It is expected to grow further with a CAGR of approximately 6.5% from 2013 to 2017, primarily driven by an increasingly emphasis on the importance of high quality education and overseas education opportunities by parents who believe private schools can meet their needs. In addition, this segment had a penetration rate of approximately 9.8% in 2013.

Tuition fees of the PRC private fundamental education industry

Tuition fees in private fundamental schools are usually higher than those in public fundamental schools, as their operations are funded primarily by tuition fees.

In 2013, the average annual tuition fees in private preschools, elementary schools, middle schools and high schools were approximately RMB2,650.0, RMB2,920.0, RMB4,350.0 and RMB7,670.0 respectively, according to the Frost & Sullivan Report.

THE PRC INTERNATIONAL SCHOOL MARKET

According to the Frost & Sullivan Report, international schools are defined as schools that provide fundamental education with a set of foreign curricula or an integrated curriculum involving both Chinese and foreign curricula. They are broadly separated into two categories:

- International schools that cater to foreign students only, and offer foreign curricula including the International Baccalaureate, A-level, Advanced Placement, and official Canadian and Australian curricula; and
- International schools that cater to both Chinese and foreign students, which usually offer both Chinese and foreign curricula.

High school graduates from international schools can generally obtain either a British, Canadian, American or International Baccalaureate diploma. Diplomas from certain leading international schools in China are recognized by renowned foreign universities.

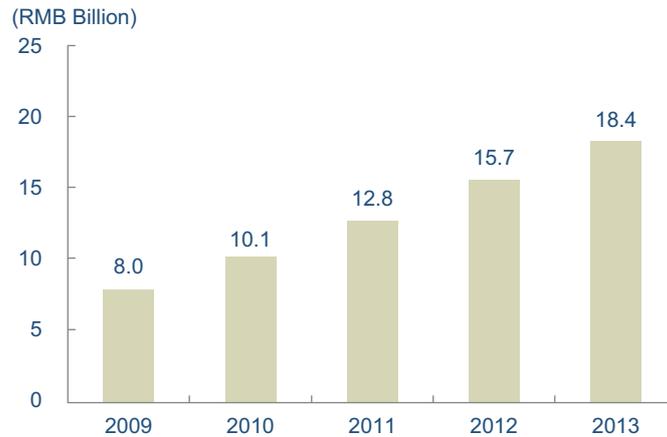
In 2013, over 90% of the international schools in China were private schools, according to the Frost and Sullivan Report. They mainly comprise offshore branches established by foreign school operators, or joint establishments between foreign education providers and Chinese domestic schools. International private schools that offer foreign curricula usually charge significantly higher tuition fees than local private schools.

Market size and trends of international schools in the PRC

The PRC international school market generated total revenues of approximately RMB18.4 billion in 2013, increasing from approximately RMB8.0 billion in 2009, representing a CAGR of approximately 23.0% over the period, according to the Frost & Sullivan Report. The rapid growth was primarily driven by the rising per student tuition fee per annum and the increasing student enrollment in the international school market. According to the Frost & Sullivan Report, the total revenue for the international school market is mainly attributable to tuition fees.

INDUSTRY OVERVIEW

Total Revenues of International School Market, 2009-2013



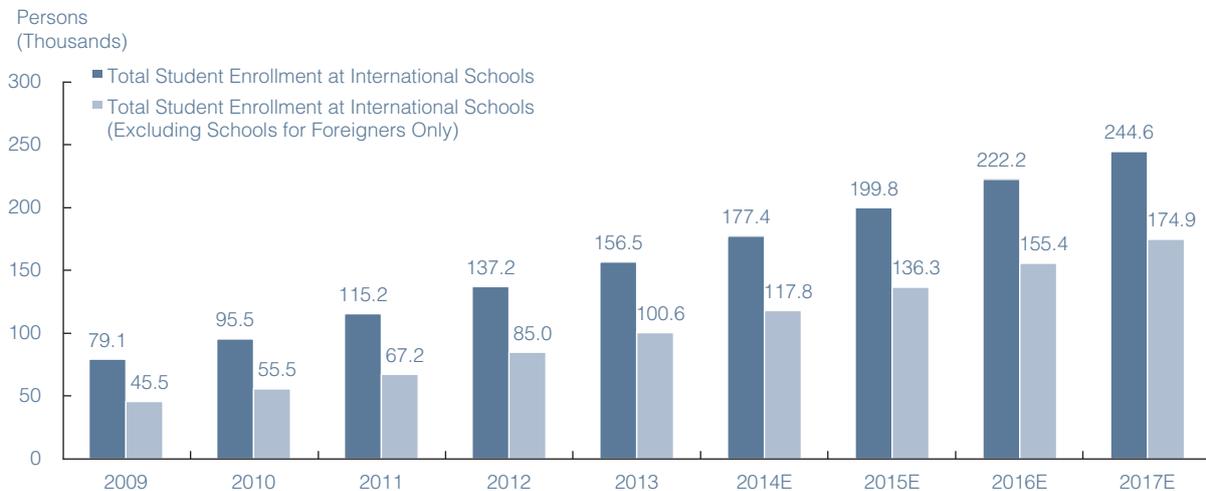
Source: Frost & Sullivan Report

Student enrollment in the PRC international school market

International schools in China have grown rapidly in recent years. The total number of students enrolled in international schools reached approximately 156,500 in 2013, nearly double of that from 2009, representing a CAGR of approximately 18.6% from 2009 to 2013, according to the Frost & Sullivan Report. Of the 156,500 international school students enrolled in 2013, approximately 100,600 were enrolled in international schools that admit both Chinese and foreign students.

The diagram below sets forth the students enrolled in international schools from 2009 to 2013, as well as the forecast of student enrollment from 2014 to 2017.

Total Student Enrollment in International Schools, 2009-2017E



Source: Frost & Sullivan Report

Note: The data in the above diagram is based on statistics as of August 31 of each year.

The rapid growth in students enrollment in international schools in China is mainly attributable to two key drivers: the increasing number of foreign expatriates in China since the late 1990s, and the strong intention of Chinese parents to send their children to study abroad. According to the Frost & Sullivan Report, these two trends are likely to continue in the coming years, and the international school market in China is anticipated to maintain rapid growth with a double-digit CAGR of 11.8% over the forecast period of 2013 to 2017, reaching approximately 244,600 students enrolled in 2017.

Competitive Landscape

According to the Frost & Sullivan Report, the international school market is fragmented in China with hundreds of school operators. The top five international schools, in aggregate, comprised approximately 18.0% of the

INDUSTRY OVERVIEW

market in 2013 in terms of student enrollment, representing a total of 28,208 students. There is no single school operator with a market share greater than 10.0%. Maple Leaf, an education group specialized in providing dual curriculum for high schools, is the largest international school operator in China. Its market share was approximately 7.5% in 2013, followed by Shanghai United and Dulwich, with market shares of approximately 3.0% and 2.6% respectively. Among the top 5 international schools, Maple Leaf, Shanghai United and Dulwich cater to both Chinese and foreign students, while Nord Anglia and Yew Chung cater to foreign students only.

Top 5 International Schools in the PRC, Ranked by Student Enrollment in 2012/2013 School Year

Ranking	School operator	Student Enrollment 2012/2013 school year (persons)	Market share 2012/2013 school year (%)
1	Maple Leaf	11,697	7.5%
2	Shanghai United	4,687	3.0%
3	Dulwich	4,110	2.6%
4	Nord Anglia	4,077	2.6%
5	Yew Chung	3,637	2.3%

Source: Frost & Sullivan Report

Note: The data in the above table is based on statistics as of August 31, 2013. The ranking is based on the student enrollment, which only takes into account the international sections of each school operator and excludes domestic or national sections which are beyond the definition of international schools set out in the industry overview section.

International schools generally charge higher tuition fees than local private schools, and hence most of them are located in cities with populations that have relatively higher annual disposable incomes. Beijing, Shanghai and Guangzhou are the three largest cities in the international school market, followed by emerging cities such as Dalian, Chongqing, Tianjin and Wuhan. The average tuition fees charged by the top 5 international schools in China in 2012/2013 school year were approximately RMB114,499.2, RMB138,913.4, RMB155,147.2 and RMB163,006.6 for preschools, elementary schools, middle schools and high schools, respectively. For more details on our tuition fees, please refer to the “Business — Our Schools” section of this [REDACTED].

Key market drivers of the international school market

The increasing demand for international schools in China, in particular for premium international schools, is primarily driven by the following factors:

- Importance of a bilingual and multicultural education for overseas education

Demand for English-language education is growing rapidly in China, primarily due to the increasing desire of Chinese parents to send their children abroad for education, as they believe it provides their children with broader cultural exposure and improved future employment prospects. According to the Frost & Sullivan Report, the number of high school graduates going overseas for further studies grew from approximately 41,000 in 2009 to approximately 131,000 in 2013, representing a CAGR of approximately 33.7% over this period. Accordingly, the proportion of Chinese high school graduates going overseas for further studies has increased from approximately 0.5% in 2009 to approximately 1.6% in 2013.

International schools that place a strong emphasis on teaching English are seen as better for preparing children for overseas education in English-speaking countries. According to the Frost & Sullivan Report, the United States, the UK, Australia and Canada are the preferred countries for Chinese students looking to study abroad, accounting for a total of approximately 73.0% of Chinese students going overseas for studies in 2013. In addition, Chinese parents increasingly emphasize the pursuit of further education in top-ranked universities worldwide as one of the main paths to a successful career. Since obtaining a quality K-12 education in English significantly enhances the likelihood of admission to top-ranked universities, parents tend to be more inclined to send their children to international schools.

- Rising Income of Chinese Households

Along with the continued economic growth and urbanization in China, the per capita disposable income of Chinese urban households has increased rapidly to approximately RMB26,955.0 in 2013 from approximately RM17,174.7 in 2009, and is forecasted to increase to approximately RMB39,948.5 in 2017 with a CAGR of approximately 10.3% from 2013 to 2017, according to the Frost & Sullivan Report. Rising disposable income has

INDUSTRY OVERVIEW

become a key driver of demand for international schools, as many families are able to afford the higher tuition fees. According to the Frost & Sullivan Report, per capita expenditure per annum on fundamental education increased from approximately RMB691.3 in 2009 to approximately RMB1,330.4 in 2013, representing a CAGR of approximately 17.8% from 2009 to 2013.

In addition, according to the Frost & Sullivan Report, the total number of wealthy individuals (i.e. those with an annual disposable income above RMB100,000) was estimated to be approximately 38.0 million in China in 2013, up from approximately 17.0 million in 2009 with a CAGR of approximately 22.0% from 2009 to 2013. It is forecasted to increase to approximately 63.0 million in 2017 with a CAGR of approximately 14.0% from 2013 to 2017. Wealthy individuals generally have a strong tendency of sending their children overseas for studies, and are therefore potential customers of international schools.

- Growing expatriate population in China

China is continuously integrating into the world economy as it opens up its market to foreign investment. This has resulted in a growing expatriate population in China, as more people migrate there for business opportunities. According to the Frost & Sullivan Report, the number of expatriates has increased from approximately 223.0 million in 2009 to approximately 246.4 million in 2012. As most expatriates move to China with their families, expatriate demand for international schools will likely increase given their general preference to receive an education similar to that in their home countries.

- Favorable PRC government policies

Since the 1980s, the central and local governments in the PRC have launched a series of policies to encourage the development of private education. For example, public expenditure on private education increased at a CAGR of approximately 31.6% from 2009 to 2013. The PRC central government’s recent policies have shown an increase in support for private education including international schools. For example, in the Summary of the 2013 National Conference on Education 《2013年全國教育工作會議紀要》, the PRC central government stated its intention to abolish all discriminatory policies against private education and stated that private investment is encouraged for the development of the country’s education system. In addition, in some regions, local governments have implemented favorable policies to attract well-known private schools to establish local branches such as granting free land and providing financial support for the development of campuses.

- Quality of public fundamental schools

The public fundamental education industry in China is characterized by standardized curricula that place a strong emphasis on test preparation as compared to other aspects such as creativity, social skills, psychological and physical health and self-care abilities. This lack of diversity in the public school curricula also means that students are given few options in relation to the selection of courses. In addition, public schools in China are funded and operated by the relevant governmental departments, which may affect the autonomy and normal operation of the schools. Furthermore, resources for public education are not evenly allocated across China, leading to a large disparity in the quality of schools and teachers across regions and even within the same city. For example, schools in urban areas are generally allocated more resources than those in rural areas, and thus typically have better facilities, larger campuses and higher-quality teachers.

Since the quality of public schools varies, many parents consider private schools as an alternate source of education that can better cater to students’ needs. International schools in particular typically provide better infrastructure, smaller class sizes, a more diversified curriculum, and an English-language focused education.

Due to intense competition for fundamental education and higher education, demand for high-quality private educational services, in particular in international schools, is expected to continue to grow in China.

ENTRY BARRIERS FOR THE PRC EDUCATION INDUSTRY

Entry barriers for school operators in the PRC fundamental education industry

The PRC fundamental education industry has relatively high entry barriers, particularly the compulsory education which is closely regulated by the MOE. The following sets forth some of the key entry barriers for the PRC fundamental education industry:

- Regulatory approvals

The school operators in China are required to obtain and maintain a series of approvals, licenses and permits by the relevant governmental authorities, and comply with specific registration and filing requirements in order to operate education services.

INDUSTRY OVERVIEW

The establishment of a school in China is also subject to the relevant governmental authorities’ approvals, including the approvals under the Education Law of the PRC (中華人民共和國教育法), which stipulates the fundamental conditions that shall be fulfilled. In addition, the establishment of a private school in China will further subject to the approvals under the Law for Promoting Private Education (中華人民共和國國民辦教育促進法) and the Implementation Rules for the Law for Promoting Private Education (中華人民共和國國民辦教育促進法實施條例). The lengthy and complex application process has become a natural entry barriers for the industry, especially for the new school operators.

- **Capital requirements**

The establishment of a school in China requires large initial investment for the construction of campus and school facilities and other related expenses. The investment is also an on-going long term investment commitment on top of the initial investment. Therefore, the ability for school operators to secured sufficient capital will be critical as they will need to commit into all the investment requirements.

- **Availability of land and relevant facilities**

The availability of land and relevant facilities remain a challenge for new comers amid the tight supply of available land in certain Chinese cities and rising rental costs. Sufficient land and facilities not only are the basic requirements to operate schools, they also have direct impact to the class size and quality of education that school operators can offer. In general, it will take a considerable amount of time and resources for school operators to establish a new school in a new location.

- **Availability of qualified teaching staffs**

The quality of teaching staffs has a direct influence over the quality of the education provided by the school operators. Given the general demand for smaller class size and shortage of teaching staffs, schools operators who wish to expand their schools are facing more pressures. In addition, high quality teachers are usually employed by public schools and well-established private schools; hence, it is difficult for new entrants to attract the highly qualified teachers.

Entry barriers for school operators in the PRC international school market

According to the Frost & Sullivan Report, international school market in general has higher entry barriers. Firstly, the PRC-foreign cooperation in operating schools or training programs is specifically governed by the Sino-Foreign Regulation in accordance with the Education Law, the Occupational Education Law of the PRC (中華人民共和國職業教育法) and the Law for Promoting Private Education of the PRC, and the Implementing Rules for the Regulations on Operating PRC-foreign Schools (中華人民共和國合作辦學條例實施辦法). Secondly, any PRC-foreign cooperation school and cooperation program shall be approved by relevant education authorities and get the Permit for Chinese-foreign Cooperation in Operating School. Thirdly, the continuous and steady investment, multiple sources and channels of capital are essential for international schools so as to guarantee their operation, as the international schools invest significantly in the modern campus and facilities, international exchange programs, English-speaking teacher recruitment and English-language teaching materials.

International schools also require to maintain a long term good reputation and brand name associated with quality are essential for schools in recruiting students. Parents and students have preference for schools with long operating track record, well-established reputation, and relevant market rankings, which take years to establish.

Entry barriers for school operators to offer dual-diploma curriculum

The Directors believe that the ability to offer dual-diploma curriculum is one of the highest entry barriers for school operators in the industry. The complexity comes from the challenges in designing a curriculum that can offer courses that are accredited under both foreign and Chinese education systems and the course credits are required to be able to duly certify between the respective governments’ educational authorities. The establishment for a dual-diploma curriculum is required to obtain approvals from both governments whereby each education system has its own specific requirements hence it is a highly complicated process to achieve mutual agreements from both systems. In addition, the school operator’s ability to design a curriculum with courses that can combine the requirements from both systems and also minimize course overlaps for students is a key challenge. In terms of the operation, the school operator is required to recruit and maintain qualified teaching staffs from both systems and the Directors considered that the ability to manage two teaching teams with very different teaching methodologies and lifestyles are highly challenging. In conclusion, the Director believes that the lengthy and complicated approval process, together with the complexity in operating a dual-diploma curriculum schools are poised to be one of the highest entry barriers for new entrants.