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## INDUSTRY OVERVIEW

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*This section contains certain information, statistics and data which are derived from official government publications and industry sources as well as a commissioned report from Frost & Sullivan, an Independent Third Party (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 us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy.*

### SOURCES OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is principally engaged in the provision of market research consultancy services, to conduct a detailed analysis of the PRC education market, the private higher education market in Jiangxi, Guangdong and China as a whole and the private technical school market in China and Guangdong.

During the preparation of the Frost & Sullivan Report, Frost & Sullivan performed both primary and secondary research, and obtained knowledge, statistics, information and industry insights on the industry trends of the PRC education market, the private higher education market in Jiangxi, Guangdong and China and the private technical school market in China and Guangdong. Primary research involved discussing the status of the industry with leading industry participants and industry experts. Secondary research involved reviewing annual reports of companies, independent research reports and Frost & Sullivan’s proprietary database. The Frost & Sullivan Report was compiled based on the following assumptions: (i) China’s economy is likely to maintain steady growth in the next decade; (ii) China’s social, economic and political environment is likely to remain stable during the forecast period from 2017 to 2021; and (iii) the market drivers, such as the attention on children’s education by the Chinese households, support from the PRC central and local governments, improved investment on private education of the entire Chinese society, and the increase of income and personal wealth, are likely to drive China’s private formal higher education market.

Frost & Sullivan is an independent global consulting firm, which was founded in New York in 1961. It offers industry research and market strategies, and provides growth consulting and corporate training. We are contracted to pay a fee of RMB800,000 to Frost & Sullivan in connection with the preparation of the Frost & Sullivan Report. We have extracted certain information from the Frost & Sullivan Report in this section, as well as in the sections headed “Summary,” “Risk Factors,” “Business,” “Financial Information” and elsewhere in this document to provide our potential investors with a more comprehensive presentation of the industries in which we operate. Our Directors confirm to the best of their knowledge, and after making reasonable enquiries, that there have been no adverse changes in the industry since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information set out in this section.

### OVERVIEW OF THE EDUCATION INDUSTRY AND HIGHER EDUCATION INDUSTRY IN CHINA

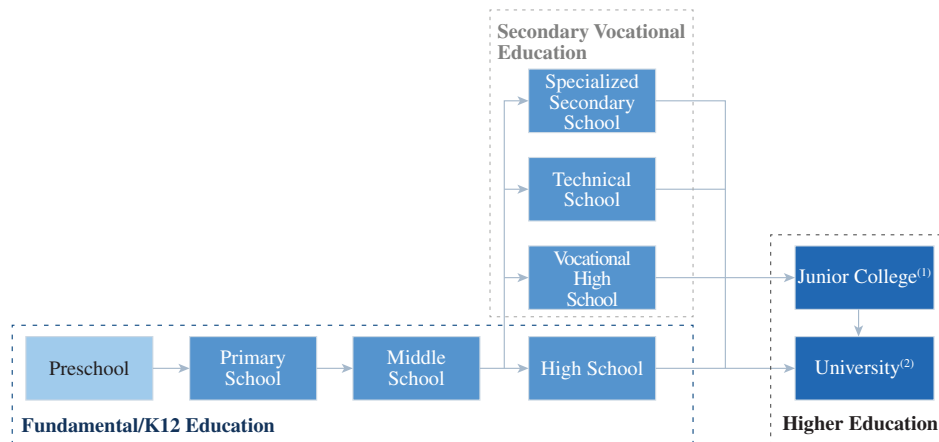
China’s regular education system can be generally categorised into formal and informal education. The formal education system provides students with the opportunity to obtain official certificates from the PRC government, whereas the informal education system merely enables students to obtain completion certificates for the training and learning courses they take, which may not be officially recognised in China.

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Formal education 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 junior college (專科院校) or university (本科院校) granting different diplomas/degrees, while secondary vocational education can be provided by technical school (技工學校), vocational high school (職業高中) and specialised secondary school (中等專業學校).

This section only covers the formal education industry in China. While adult education is also a part of formal education according to the MOE's classification, the discussion of which is not specifically covered in this section. The following diagram illustrates the composition of the PRC formal education system. Our core business covers regular university and technical school operations.

### Illustration of China's Formal Education System



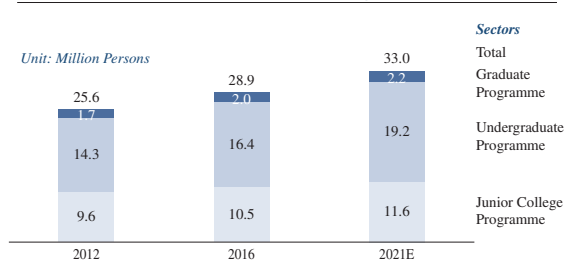
Source: Frost & Sullivan

Notes:

- (1) Schools with a school education level of higher vocational college would be considered as junior colleges.
- (2) University includes both regular university and independent colleges. Schools with a school education level of undergraduate (where junior college and higher vocational education programmes may also be offered) would be considered as universities.

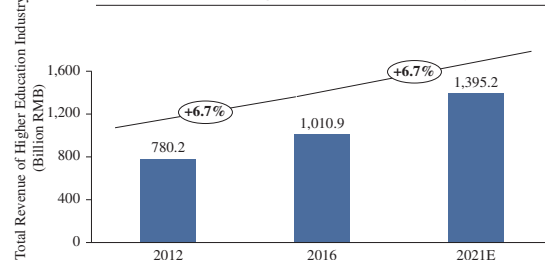
According to the Frost & Sullivan Report, the higher education industry in China has experienced steady growth over the past five years. According to National Bureau of Statistics of China and the MOE, China's total revenue of higher education industry increased from RMB780.2 billion in 2012 to RMB1,010.9 billion in 2016 and is expected to further increase to RMB1,395.2 billion in 2021. In terms of student enrolment in higher education industry in China, according to the Frost & Sullivan Report, the number of student enrolment steadily increased from 25.6 million in 2012 to 28.9 million in 2016 and is expected to further increase to 33.0 million in 2021.

**Total Number of Student Enrollments in Higher Education in China**



Source: Frost & Sullivan, National Bureau of Statistics of China, MOE

**Total Revenue of Higher Education Industry in China**



Source: Frost & Sullivan

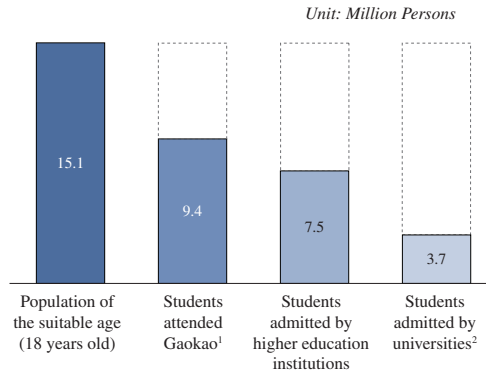
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Despite the increase of student enrolment in higher education in recent years, the higher education admission rates for universities remain relatively low. According to the Frost & Sullivan Report, among the 15.1 million population of suitable age, only 50% of them were admitted by higher education institutions and only 25% of them were admitted by universities. Therefore, we believe the higher education market has a significant growth potential.

### Demand Analysis of Higher Education (China), 2016

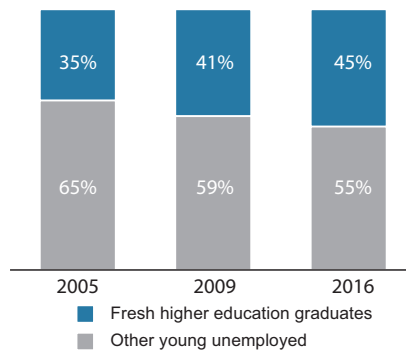


Source: Frost & Sullivan

Notes:

1. The statistics of students attending Gaokao and students admitted by higher education institutions included a small portion of people who are above 18 years old.
2. Given that the official figures have not been published, the number of students admitted by universities is represented by planned enrolment of undergraduate programmes for illustration.

### Proportion of Fresh Higher Education Graduates in Overall Young Unemployed



Source: Frost & Sullivan

Moreover, it is becoming more difficult for higher education graduates to secure a job. According to the Frost & Sullivan Report, the proportion of fresh higher education graduates in overall young unemployed grows from 35% in 2005 to 45% in 2016. Markets have increasing demand for graduates with professional skills while most of public universities in China focus on academic research instead of training of practical skills. It is, therefore, expected that there will be an increasing number of universities focussing on applied technology.

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China's higher education can be categorised into public higher education and private higher education. Public higher education institutions are established and operated by national or local governments and their major source of funding comes from PRC public expenditure on education, while private higher education institutions are established and operated by non-governmental institutions or individuals and their major source of funding comes from school operations. This public/private dichotomy also applies to China's secondary vocational education. The discussion in this section only covers the private higher education industry and the private technical school industry in which we operate.

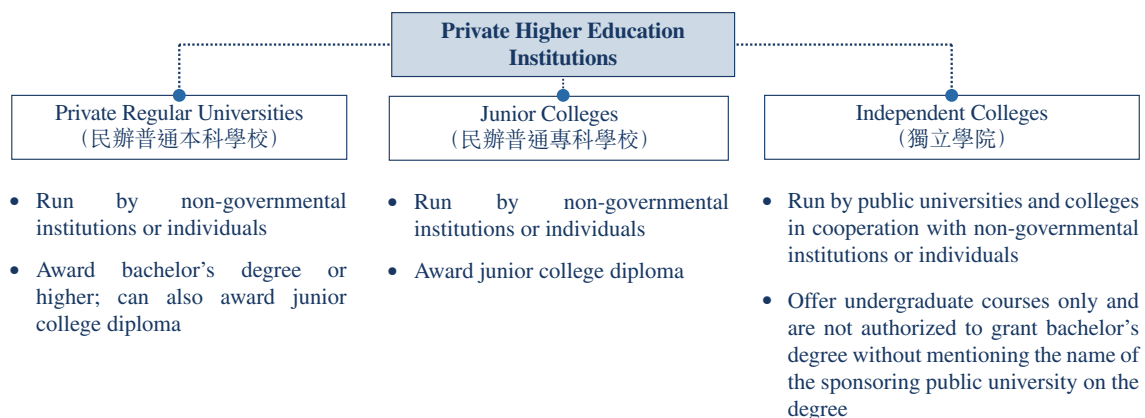
### High Barriers to Entry and Competitive Landscape

According to the Frost & Sullivan Report, the higher education industry in China has high barriers to entry that deter new competitors from emerging. Regulatory approvals, time and achievements required to establish brand name and reputation, academic resources such as the availability of experienced school operators, qualified teaching staff and teaching facilities, and high capital requirements to construct school campuses and facilities are among the key barriers to entry. According to the Frost & Sullivan Report, the competitive landscape of the higher education industry in China is generally characterised by intense competition from existing market players, particularly those with a sizeable operation and established reputation, and industry consolidation. In particular, according to the Frost & Sullivan Report, in 2016, the total number of private higher education institutions in China exceeded 700. Furthermore, private schools also compete with public schools for, among other things, academic resources and student enrolment. In particular, some public schools in China enjoy a strong competitive position on account of their long established history, widely recognised reputation and consistently high rankings among other competitors. It is also expected that the industry trend of consolidation with leading players continuing to develop with the primary strategy of pursuing growth through mergers and acquisitions will further intensify the competition in the industry. According to the Frost & Sullivan Report, the higher education industry in China is fragmented and there is intense competition among major market players for quality acquisition targets.

### THE PRIVATE HIGHER EDUCATION INDUSTRY IN CHINA

The private higher education industry in China has experienced rapid growth as it entered the phase of regulated development when the relevant government authorities made great endeavour in completing the regulatory framework for private higher education, according to the Frost & Sullivan Report. Private higher education institutions in China can be divided into three categories, namely private regular universities (民辦普通本科學校), private junior colleges (民辦普通專科學校) and independent colleges (獨立學院).

#### Composition of Private Higher Education Institutions



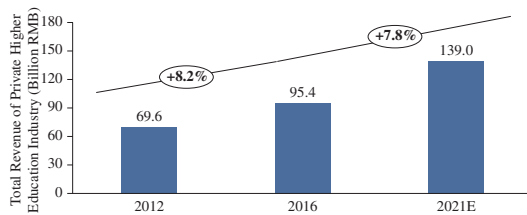
Source: Frost & Sullivan

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### Market Size and Student Enrolment of the Private Higher Education Industry in China

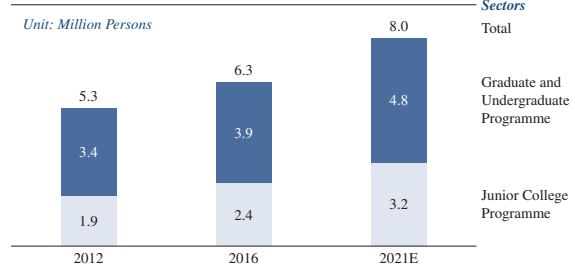
According to the Frost & Sullivan Report, the total revenue of the private higher education industry has been increasing steadily from RMB69.6 billion in 2012 to RMB95.4 billion in 2016 and is expected to further increase to RMB139.0 billion in 2021. The total number of student enrolment in private higher education in China increased from 5.3 million in 2012 to 6.3 million in 2016 and is expected to further increase to 8.0 million in 2021.

**Total Revenue of Private Higher Education Industry in China**



Source: Frost & Sullivan

**Total Number of Student Enrollments in Private Higher Education in China**



Source: Frost & Sullivan

The penetration rate of private higher education as a whole in China also increased from 20.8% in 2012 to 21.9% in 2016, indicating that more students have chosen to attend private higher education institutions instead of public ones. Such trend is likely to continue as the penetration rate is expected to reach 24.3% in 2021, according to the Frost & Sullivan Report.

### Tuition Fees of the Private Higher Education Industry in China

According to the Frost & Sullivan Report, China's average tuition fees of higher education per student per school year increased from RMB7,280 in 2012 to RMB7,844 in 2016, which correlated to the increase in per capita GDP during the same period. As China's economy continues to develop and per capita GDP continues to increase, China's average tuition fees for higher education is expected to continue to grow. In addition, China's average tuition fees of higher education as a percentage of per capita GDP is 14.5% in 2016, compared to 20.6% in the U.S., indicating that it has room to grow further. In 2016, the average tuition fees of private higher education institutions was approximately RMB11,447, much higher than that of public higher education institutions, which was RMB6,834.

### Market Drivers of Private Higher Education in China

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

- Government support:** The development of PRC private higher education is significantly driven by PRC government policies and initiatives. For example, The National Medium-to-Long Term Educational Reform and Development Plan (2010-2020) (《國家中長期教育改革和發展規劃綱要(2010-2020)》), issued in 2010, set the strategic development plan to encourage financial investment in education and support the development of private education. In 2016, The Decision on Amending the Law for Promoting Private Education (《關於修改〈民辦教育促進法〉的決定》) was promulgated, which further optimises existing regulatory framework and provides that private schools can choose to register as either for-profit entities or non-profit entities. For more

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information, see the section headed “Regulation – Regulations on Private Education in the PRC – The Revisions of the Law for Promoting Private Education of the PRC.” In the same year, 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》) was promulgated to further promote the development of private education. For more information, see the section headed “Regulation – Regulations on Private Education in the PRC – Several Opinions on Encouraging Individual Persons or Entities to Conduct Education and Promote the Healthy Development of Private Education”;

- **Increasing resident income and demand for higher education:** With the increase in household income and improvement of living conditions in China, the general public has shown an increasing demand for higher education due to the rising awareness of the importance of education and higher affordability. According to the Frost & Sullivan Report, the per capita annual disposable income of Chinese urban households has increased rapidly from approximately RMB24,565 in 2012 to approximately RMB33,616 in 2016, and is estimated to further increase to approximately RMB49,521 in 2021. Rising disposable income has become a key driver of demand for education. China’s per capita consumption expenditure of urban households on education increased from RMB820 in 2012 to RMB1,070 in 2016, and is estimated to further increase to RMB1,487 in 2021, according to the Frost & Sullivan Report. However, public higher education resources are relatively limited, and thus a demand gap has emerged. According to the Frost & Sullivan Report, it is expected that the rapid development of private higher education will fill the gap;
- **Growing market demand for technical talents:** With continued economic development, the market has an increasing demand for technical talents in all areas. However, there is an increase of student enrolment of public higher education institutions focussing on the teaching of academic theories, a significant lack of skilled and well-trained first-line technicians has been identified; and
- **Increasing diversification and strengthened education quality:** The quality of private formal higher education is continuously improving with favourable government policy support. Private education that focuses on professional education is also expanding its portfolio and increasing level of specialisation. Such developments are expected to attract more students to consider private formal higher education and drive the growth of the market.

### Development Trends of the Private Higher Education Industry in China

According to the Frost & Sullivan Report, the development trends of the private higher education industry in China include the following:

- **Industry consolidation:** China’s higher education market is expected to undergo increasing consolidation as the leading players continue to develop with the primary strategy of pursuing growth through M&A. Such trend is also heightened by stringent legal requirements, large amount of required capital and long preparation period for the establishment of higher education institutions;
- **Increasing number of private regular universities:** The transformation from independent colleges to private regular universities is likely to be a key development trend supported by private education operators’ increasing capability to integrate quality academic resources and capital. This



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transformation is also supported by the Chinese people's pursuit of higher education degree levels along with the people's increasing personal wealth and spending on education; and

- **Better match of talent cultivation objective and market demand:** Universities focussing on applied technologies are able to provide training with practical techniques and are therefore better in cultivating technical talents, who are well sought after by employers in China. The PRC government is expected to further increase its support for the development of profession-oriented higher education and relevant institutes.

### Competitive Landscape of the Private Higher Education Industry in China

China's private higher education market is highly fragmented and the operations of higher education institutions are relatively less local market-based than fundamental education. As illustrated in the composition of private higher education institutions, private higher education institutions can be categorised into private regular universities, independent colleges and private junior colleges. Both Jiangxi University of Technology and Guangdong Baiyun University are private regular universities.

According to the Frost & Sullivan Report, in 2016, the total number of private higher education institutions in China reached 742, of which 266 are independent colleges. Independent colleges are jointly established by public universities and individuals or private entities and are affiliated with the sponsoring public universities. They are different from other private higher education institutions in many material aspects: (i) the operation and student admission of independent colleges are under the name of the sponsoring public university; (ii) some independent colleges are located on the campus of their corresponding sponsoring public universities and use the teachers and other teaching resources of their corresponding sponsoring public universities; (iii) when students graduate, degrees awarded bear the name of their corresponding sponsoring public universities; and (iv) independent colleges normally pay a large portion of their tuition fee income to the sponsoring public university for the use of the brand and the resources. For the reasons above, our analysis of the competitive landscape of the private higher education industry in China has excluded independent colleges.

The following table shows the student enrolment number of the top five private higher education service providers in China in 2016. Our Group was the second largest private higher education group in China with approximately 51.9 thousand students enrolled in our private regular universities. According to the Frost & Sullivan Report, the higher education market in China is highly fragmented and only a very limited number of market participants are able to reach an ultra-large-scale of over 50,000 students.

**Leading Players in Private Higher Education Market (China)  
in Terms of Student Enrolment, 2016<sup>(1)</sup>**

Rank	Market Players	Number of Student Enrolment (thousand students)
1	Education group A	74.3
2	<b>Our Group</b>	51.9
3	Education group B	41.2
4	Education group C	39.1
5	Education group D	35.0

Source: Frost & Sullivan

Note:

<sup>(1)</sup> As explained above, the ranking has excluded independent colleges.

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### Entry Barriers for the Private Higher Education Industry in China

According to the Frost & Sullivan Report, the PRC private higher education industry has fairly high entry barriers. Specific entry barriers are set forth below:

- **Regulatory approvals:** Private school operators in China are required to obtain and maintain a series of approvals, licences and permits and comply with specific registration and filing requirements. The lengthy, complex and uncertain application process has become a natural entry barrier especially for new school operators;
- **Operational experience and management capability:** Operational and management experience are vital to school operations as well as in achieving economies of scale, which is a significant entry barrier for new entrants;
- **Brand awareness and source of students:** Students in China have strong preference to attend schools with a long history and well-established reputation, both of which are difficult to achieve in a short period of time and further impose obstacles for new entrants to attract sufficient students;
- **Availability of land and relevant facilities:** Insufficient land resources, challenged availability of relevant facilities and rising rental costs in certain cities in China are imposing higher capital and time cost requirements for new school establishment and existing schools to establish branches in new locations;
- **Capital requirements:** Establishment of a new school in China requires large capital investment for the construction of school campuses and facilities as well as other related expenses. Therefore, the ability for school operators to secure sufficient capital is critical; and
- **Availability of qualified teaching staff:** The structural adjustment of China's higher education industry has exacerbated the shortage of qualified teachers with relevant practical industry experience and know-how, which may inhibit new participants who do not have sufficient access to such resources from entering the market.

### THE PRIVATE HIGHER EDUCATION INDUSTRY IN JIANGXI PROVINCE AND GUANGDONG PROVINCE

Along with the fast development of the private higher education industry in China, according to the Frost & Sullivan Report, the private higher education industry in Jiangxi and Guangdong provinces also experienced rapid growth in the past five years and is expected to continue to grow in the future.

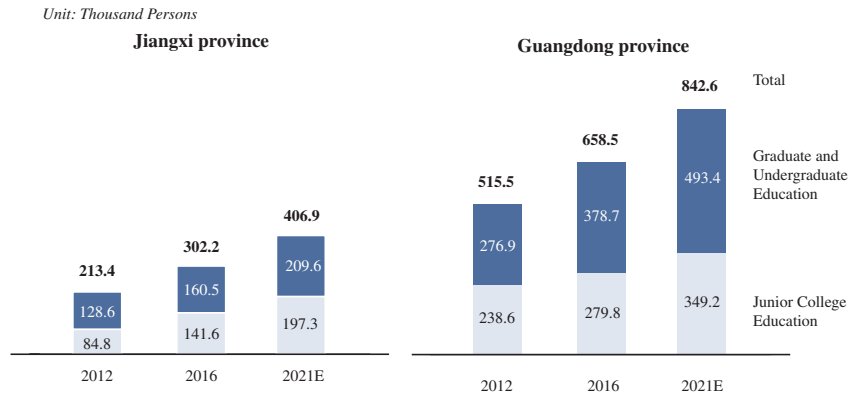
According to the Frost & Sullivan Report, the total revenue of private higher education in Jiangxi province grew from RMB2.5 billion in 2012 to RMB3.4 billion in 2016, and is expected to further increase to RMB4.9 billion in 2021. As to Guangdong province, the revenue of private higher education grew from RMB6.5 billion in 2012 to RMB9.8 billion in 2016, and is expected to further increase to RMB14.8 billion in 2021.

With respect to student enrolment, according to the Frost & Sullivan Report, from 2012 to 2016, the total student enrolment in the private higher education industry in Jiangxi province increased from 213.4 thousand to 302.2 thousand and is expected to continue to grow to 406.9 thousand in 2021. According to the Frost & Sullivan Report, from 2012 to 2016, the total student enrolment in the private higher education industry in Guangdong province increased from 515.5 thousand to 658.5 thousand and is estimated to continue to grow to 842.6 thousand in 2021.



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### Number of Student Enrolment in Private Higher Education of Jiangxi province and Guangdong province



Source: Frost & Sullivan

The private higher education markets in Jiangxi province and Guangdong province are relatively concentrated. According to the Frost & Sullivan Report, as of 31 December 2016, in terms of student enrolment, Jiangxi University of Technology was the largest private regular university in Jiangxi province and Guangdong Baiyun University was the third largest private regular university in Guangdong province.

### THE PRIVATE TECHNICAL SCHOOL INDUSTRY IN CHINA AND IN GUANGDONG PROVINCE

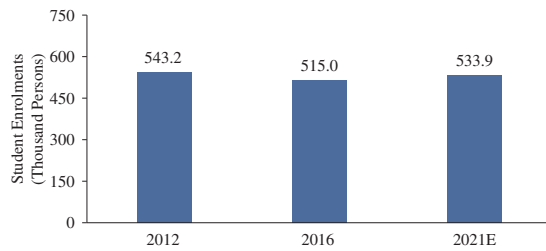
The private technical school industry in China is competitive, highly fragmented and local market-based. In 2016, there were approximately 400 private technical schools in China with a total student enrolment of approximately 515.0 thousand, according to the Frost & Sullivan Report. Guangdong province has a developed private technical school industry and is in the leading position among all provinces, municipalities, and autonomous regions in China. In 2016, among these 400 private technical schools in China, approximately 40 are located in Guangdong province and these schools enrolled over 10.0% of the total number of student enrolled in all private technical schools in China, according to the Frost & Sullivan Report.

### Market Size and Student Enrolment of the Private Technical School Industry in China and in Guangdong Province

According to the Frost & Sullivan Report, the total revenue of the private technical school industry was RMB1,545.7 million in 2016 and is expected to continue to increase to RMB2,105.6 million in 2021. In terms of student enrolment, according to the Frost & Sullivan Report, the total number of student enrolment in the private technical school industry in China was 515.0 thousand in 2016 and is expected to increase to 533.9 thousand in 2021. The following diagrams below illustrate the total revenue generated by and total student enrolment in the private technical school industry in China from 2012 to 2016, and the forecast of revenue and student enrolment in 2021.

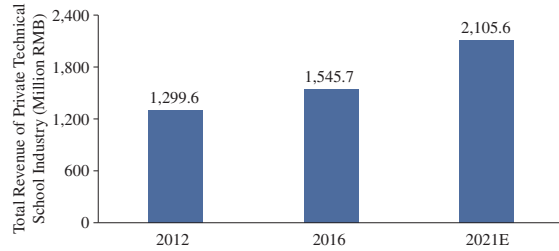
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Total Number of Student Enrollment in Private Technical School in China



Source: Frost & Sullivan

Total Revenue of Private Technical School Industry in China



Source: Frost & Sullivan

Note: only include students enrolled in full-time formal education programmes.

According to Frost & Sullivan Report, the total revenue of the private technical school industry in Guangdong province increased from RMB431.4 million in 2012 to RMB708.7 million in 2016 and such revenue is expected to continue to grow to RMB1,298.4 million in 2021. The total number of student enrolment in Guangdong province increased from 51.2 thousand to 51.6 thousand from 2012 to 2016 and such number is expected to further increase to 53.1 thousand in 2021.

### Development Trends and Drivers of the Private Technical School Industry in China

According to the Frost & Sullivan Report, the development of the private technical school industry in China is primarily driven by the following factors: (i) the growing demand for technical talents supported by the national “Made in China 2025” plan, (ii) the upgrade of the degree level of vocational education, and (iii) the adoption of school-enterprise cooperation model by private technical schools.

According to the Frost & Sullivan Report, the development trends of the private technical school industry in China mainly include:

- **Degree level upgrade:** At present, senior technical schools are able to enrol high school graduates and award the senior technician diploma, which is equivalent to the junior college diploma in some provinces, to students after graduation. Senior technicians are more desired by employers in the job market compared to other normal technical workers. It is expected that this trend of degree level upgrade is expected to continue in the future.
- **Further enhancement of school-enterprise cooperation:** The school-enterprise cooperation not only brings in additional resources to schools’ education, but also solves enterprises’ difficulties in recruiting qualified employees. This win-win situation indicates that the school-enterprise cooperation is likely to be further enhanced in the future.
- **Adjusting Talent Cultivation Mode and Curriculum Design to Match Market Demand:** With the restructuring and upgrade of various industries in China, there is a constant evolvement in market demand for technical talents, which requires technical schools to be able to adjust their major offering and curriculum design to match evolving market demand and different skill sets required by different industries.

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### Competitive Landscape of the Private Technical School Industry in China

The private technical school market in China is competitive, highly fragmented and local market-based. According to the Frost & Sullivan Report, in 2016, there were approximately 400 private technical schools in China with a total student enrolment of approximately 515.0 thousand. Baiyun Technician College was the largest market player according to the Frost & Sullivan Report and enrolled 13.8 thousand students in 2016.

Leading Players in Private Technical School Market in China  
in Terms of Student Enrolment, 2016

Rank	Market Players	Number of Student Enrolment (thousand students)
1	Baiyun Technician College	13.8
2	Private Technical School I	12.0
3	Private Technical School II	8.0
4	Private Technical School III	7.0
5	Private Technical School IV	5.5

Source: Frost & Sullivan

Note: only include students enrolled in full-time formal education programmes.

### Entry Barriers for the Private Technical School Industry in China

According to the Frost & Sullivan Report, the PRC private technical school industry generally has the following entry barriers:

- **Capital requirements:** Establishing a new school in China requires large capital investment for the construction of school campuses and facilities as well as other related expenses. Therefore, the ability for school operators to secure sufficient capital is critical;
- **Sufficient student enrolment:** Technical school is one of the three types of secondary vocational schools. It competes directly with regular specialised secondary school (普通中專) and vocational high school (職業高中) for student enrolment. Being able to enrol sufficient students is one of the key entry barriers to enter into the private technical school industry;
- **Long-term stable cooperation with enterprises:** School-enterprise cooperation is essential to the cultivation of students in technical schools. Establishment and maintenance of long-term close relationships with enterprises are the key to the success in this industry; and
- **Availability of qualified teaching staff:** Qualified teachers are commonly regarded as the most critical educational resources and have a direct impact on the quality of the school education. It is difficult for new participants to have sufficient access to such resources.