

## INDUSTRY OVERVIEW

*This and other sections of this document contain information relating to and statistics on the PRC economy and the industry in which we operate. The information and statistics contained in this section have been derived partly from publicly available government and official sources. Certain information and statistics set forth in this section have been extracted from a market research report by Frost & Sullivan, an Independent Third Party which we commissioned. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information and statistics have not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], any of the [REDACTED], any of our or their respective directors, officers, employees, advisors, agents or representatives or any other party involved in the [REDACTED] and no representation is given as to its accuracy. Accordingly, the official information provided by the government and other third-party sources as contained herein may not be accurate and should not be unduly relied upon.*

### SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research consulting firm which is engaged in the provision of market research consultancy services, to conduct a detailed analysis of the vocational education market in China. 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 fee of RMB800,000 for the preparation of the Frost & Sullivan Report. Figures and statistics provided in this document 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.

During the preparation of the market research report, Frost & Sullivan performed both primary research which involves discussions of industry status with leading industry participants and industry experts, and secondary research which involves review of company reports, independent research reports and data from Frost & Sullivan's own research database. Frost & Sullivan's market research 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 in the forecast period from 2018 to 2022; and (iii) related industry key drivers are likely to drive the market over the forecast period from 2018 to 2022. Total market size projection was obtained from historical data analysis plotted against macroeconomic data as well as related industry drivers by Frost & Sullivan.

Except as otherwise noted, all the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Our Directors confirm to the best of their knowledge, and after making reasonable inquiries, that there is no adverse change in the market information since the date of publication of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information set out in this section.

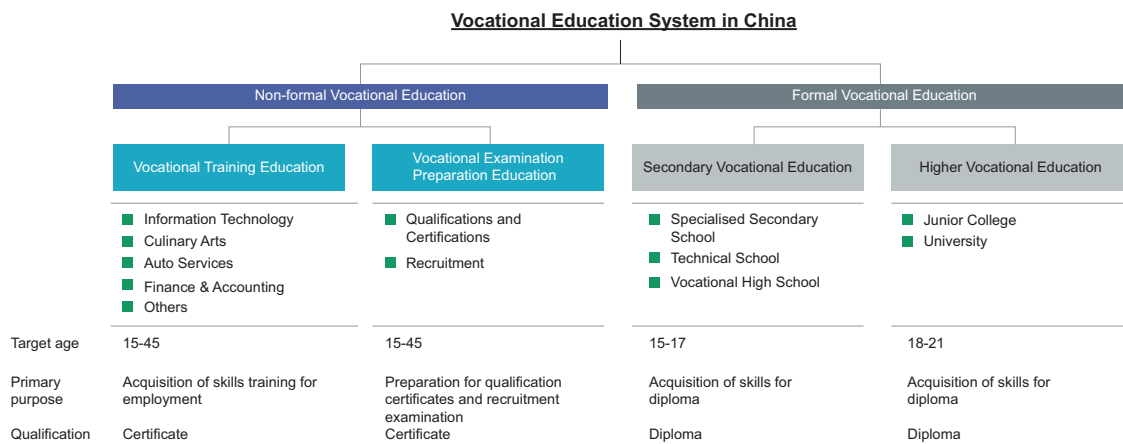
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### OVERVIEW OF THE VOCATIONAL EDUCATION INDUSTRY IN CHINA

China's vocational education system can be generally categorised into formal and non-formal vocational education. The non-formal vocational education provides training with the necessary knowledge and skills for employment purpose but does not grant a degree or diploma, while formal vocational education provides students with diploma upon completion.

Non-formal vocational education primarily comprises vocational training education and vocational examination preparation education. Formal vocational education comprises secondary vocational education and higher vocational education. According to the Frost & Sullivan Report, non-formal vocational education targets a wider range of population, spanning over 30 years from age 15 to 45, providing a variety of demand and market opportunity for non-formal vocational education providers. The following diagram illustrates the composition of the vocational education system in China. Our core business covers vocational training education, while we also provide a small portion of private secondary vocational education in some of our Schools.

#### Vocational Education System in China

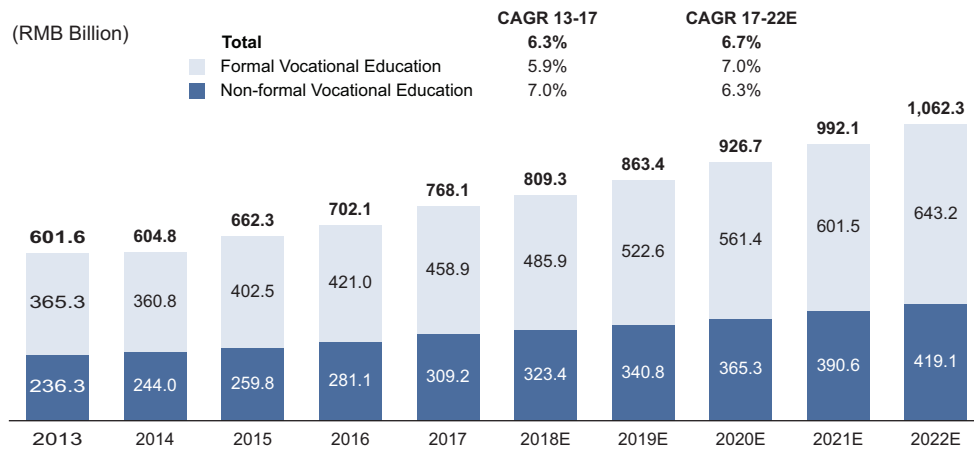


Source: Frost & Sullivan, Ministry of Education

According to the MOE and the Frost & Sullivan Report, China's vocational education industry grew steadily from RMB601.6 billion in 2013 to RMB768.1 billion in 2017, representing a 2013-2017 CAGR of 6.3% primarily driven by the growth of student enrollment and increase in tuition, and is expected to reach RMB1,062.3 billion in 2022, representing a 2017-2022E CAGR of 6.7%. The non-formal vocational education market and formal vocational education market accounted for 40.3% and 59.7%, respectively, in 2017.

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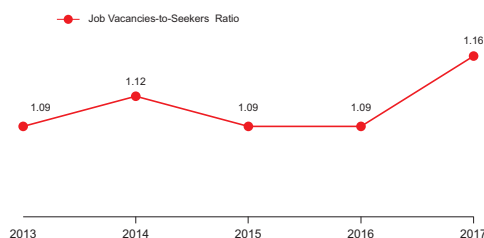
### Total Revenue of Vocational Education Industry (China), 2013 – 2022E



Source: Frost & Sullivan

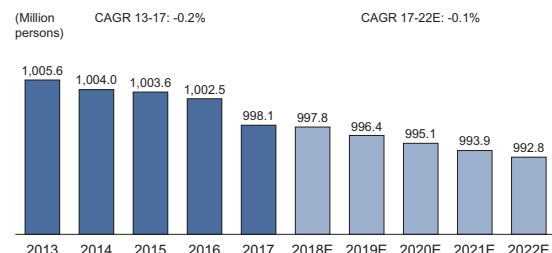
Despite the steady growth of revenue and student enrollment in the vocational education industry in China in recent years, China's labor market has continued to show a shortage of skilled technical talents. As a result of China's rapid economic growth as well as structural transformation, there has been a sizeable mismatch in the labor market in China and structural problem of lacking technical and skilled talents. According to the Ministry of Human Resources and Social Security of China, the job vacancies-to-seekers ratio showed an upward trend from 1.09 in 2013 to 1.16 in 2017, indicating a clear uptrend in the mismatch of talent supply and demand, and it is expected to further increase to 1.20 in 2022, according to the Frost & Sullivan Report. According to the National Bureau of Statistics of China, the total working-age population decreased from 1,005.6 million in 2013 to 998.1 million in 2017, mainly driven by the increasing aging population in China. According to Frost & Sullivan Report, it is expected to further decrease to 992.8 million in 2022, resulting in less supply in the labor market. In addition, the continuous trend of urbanization and industrial upgrade in China has brought more challenges and higher requirement for the country's workforce. Therefore, we believe the vocational training education has a significant market potential.

#### Talent Demand and Supply Analysis<sup>(1)</sup> in China (2013-2017)



Source: Ministry of Human Resources and Social Security of China, Frost & Sullivan

#### Working-age Population<sup>(2)</sup> in China (2013-2022E)



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

#### Notes :

1. Talent Demand and Supply Analysis refers to the ratio of job vacancies to job seekers based on 100 cities' job markets in China monitored by the Ministry of Human Resources and Social Security of China
2. The working-age population is defined as the population aged from 15 to 64 years old

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The PRC government has promulgated a series of stimulus policies and regulations to promote quality vocational education and technical skill trainings, with the aim to have sufficient quality vocational training that can fulfill the market demand to develop a significant working population equipped with readily applicable technical skills, as well as to address the unmet demand in vocational education to bridge the supply and demand gap between employers and students.

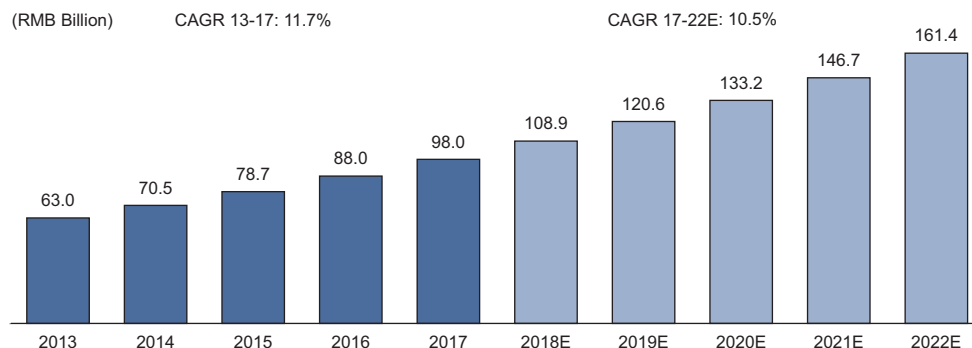
- the 2015 Opinion on Deepening the Promotion of Vocational Education Group Management (《關於深入推進職業教育集團化辦學的意見》) issued by the MOE which states the importance of accelerating the development of modern vocational education, increasing the participation rates of vocation training groups and improving the operating environment of vocational education service providers by implementing policies to further encourage vocational training managed by a group;
- the 2016 Notice on the 13th Five Year Plan for Technical Education (《技工教育“十三五”規劃》) issued by the Ministry of Human Resources and Social Security which emphasizes the need to improve the technical training environment through policy support, capital support, project support and marketing support; and
- the 2017 Opinion on Further Promoting the Development of Informatization of Vocational Education (《關於進一步推進職業教育資訊化發展的指導意見》) issued by the MOE to promote the allocation of resources to accommodate market needs, encourage social capital to participate in building informatized vocational education and to develop protection mechanisms for intellectual property as well benefit sharing.

## THE VOCATIONAL TRAINING EDUCATION INDUSTRY IN CHINA

### Market Size of Vocational Training Education Industry in China

According to the Frost & Sullivan Report, the total revenue of vocational training education increased from RMB63.0 billion in 2013 to RMB98.0 billion in 2017, representing a 2013-2017 CAGR of 11.7%, and is expected to reach RMB161.4 billion in 2022, representing a 2017-2022E CAGR of 10.5%.

#### Total Revenue of Vocational Training Education (China), 2013-2022E



Source: Frost & Sullivan

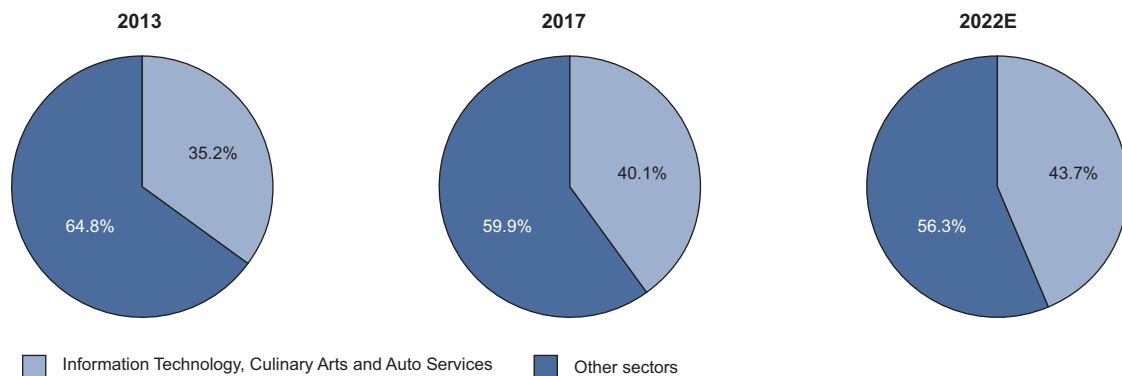
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### Market Segment of Vocational Training Education in China

According to the Frost & Sullivan Report, the target student group of the vocational training education in China can be categorized into students aged between 15 to 21 and students aged above 22. Students aged between 15 and 21 primarily choose vocational training education to receive pre-employment skill training and usually are willing to enroll in full-time long-term courses with higher tuition rates. Students aged 22 or above primarily seek to enhance vocational skills, pursue higher position, or prepare for job transfer, and usually opt for part-time, short-term or online courses with more flexible schedule and relatively lower tuition rates.

Revenue generated from culinary arts, information technology and auto services sectors accounted for 35.2% of the total vocational training education market in China in 2013. This aggregated market share increased to 40.1% in 2017 and is expected to reach 43.7% in 2022, according to the Frost & Sullivan Report. This is mainly driven by the rising demand in the relevant job markets and people's strong willingness to strengthen their skills for employment.

### Vocational Training Education by Industry in terms of revenue (China), 2013 vs. 2017 vs 2022E



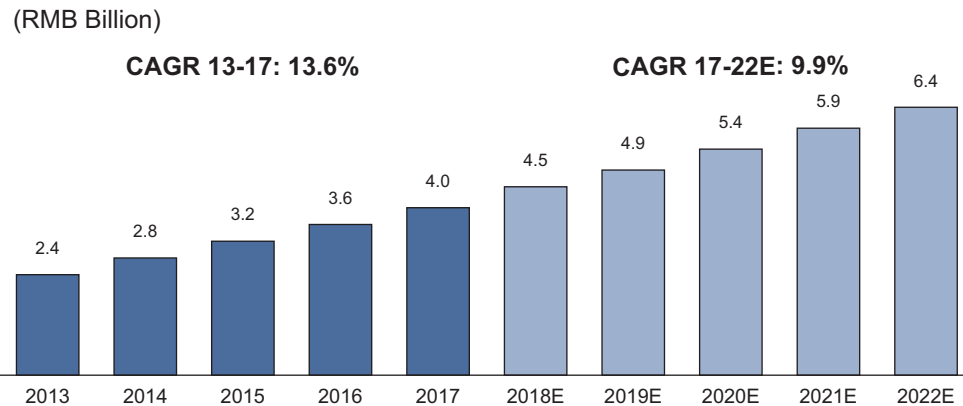
Source: Frost & Sullivan

### Culinary Vocational Training Education in China

According to the Frost & Sullivan Report, the total revenue of culinary vocational training education market increased from RMB2.4 billion in 2013 to RMB4.0 billion in 2017 and is expected to further increase to RMB6.4 billion in 2022. The growth is primarily driven by the flourishing catering industry as a result of economic development and consumption upgrade, consumers' increasing awareness on food quality, services and presentation of food which fuels demand for professionally trained chefs, favorable governmental policies to the culinary job market as well as the attractive salary level of professional chefs.

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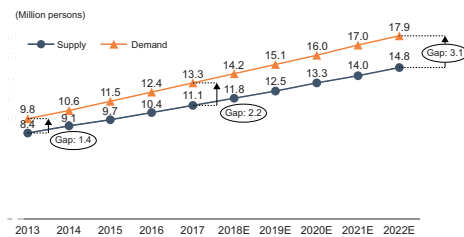
### Total Revenue of Culinary Vocational Training Education (China), 2013-2022E



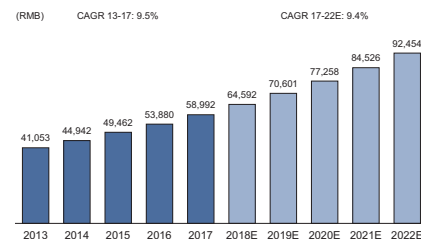
Source: Frost & Sullivan

The table below sets forth the unmet demand of skilled workers including chefs, cooks, choppers, processors, and other workers in the kitchen in the culinary arts industry and expected salary increase, indicating potential opportunities for the culinary vocational training market growth.

#### Supply and Demand Gap for Skilled Workers in Culinary Arts Industry (China), 2013 – 2022E



#### Average Annual Salary of Cooks in Culinary Arts Industry (China), 2013 – 2022E



Source: Frost & Sullivan

### Information Technology Vocational Training Education in China

According to the Frost & Sullivan Report, the total revenue of information technology vocational training education market increased from RMB18.6 billion in 2013 to RMB33.2 billion in 2017, and is expected to reach RMB60.3 billion in 2022. The primary factors that drive the information technology vocational training education market include: (i) the proliferation of the internet and new technologies such as cloud computing, big data, blockchain, virtual reality and artificial intelligence; (ii) the information technology industry has increasingly higher job requirements; (iii) many formal education students in the information technology majors do not possess the desired applicable skills for employment; and (iv) policy support from the Chinese government, such as “*The Opinions on Integration of Enterprises with Vocational Schools and Universities*” (《關於深化產教融合的若干意見》), promulgated by the State Council, which promotes the development of information technology industry.

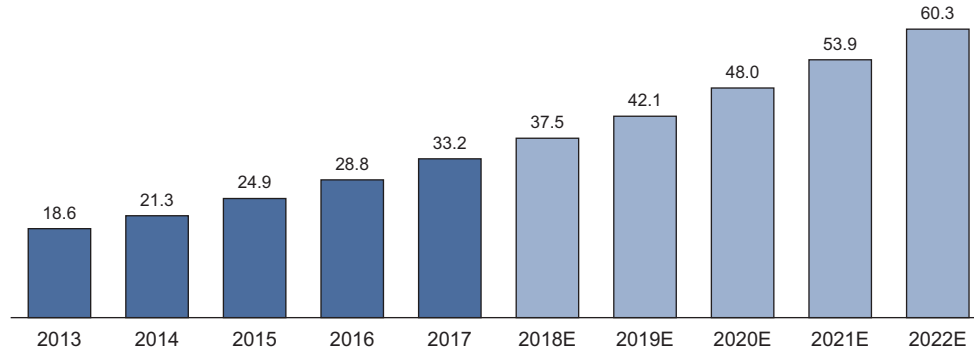
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### Total Revenue of Information Technology Vocational Training Education (China), 2013-2022E

(RMB Billion)

CAGR13-17: 15.6%

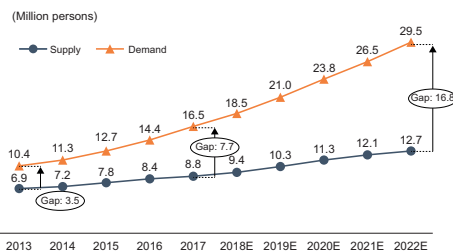
CAGR17-22E: 12.7%



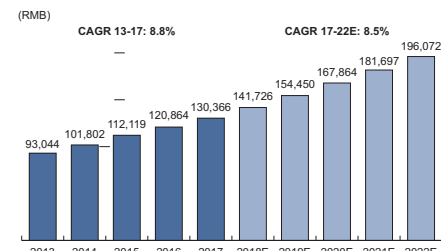
Source: Frost & Sullivan

The table below sets forth the unmet demand of skilled workers in the information technology industry and expected salary increase, indicating potential opportunities for the information technology vocational training education market growth.

#### Supply and Demand for Skilled Workers in Information Technology Industry (China), 2013-2022E



#### Average Annual Salary of Workers Employed in Information Technology Industry (China), 2013-2022E



Source: Frost & Sullivan

### Auto Services Vocational Training Education in China

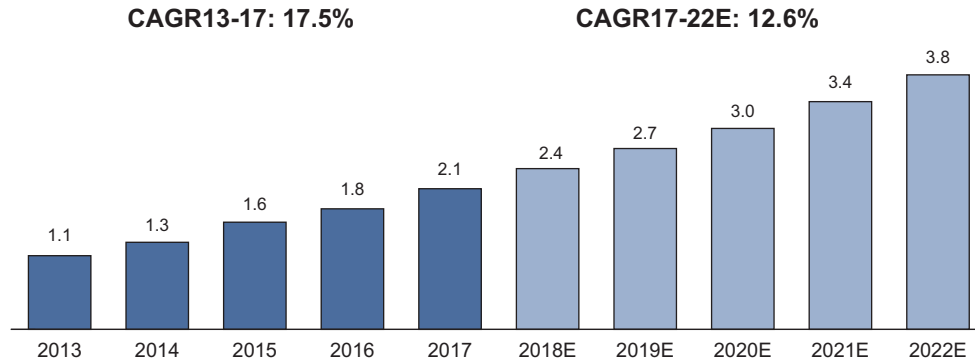
The total revenue of auto services vocational training education market increased from RMB1.1 billion in 2013 to RMB2.1 billion for 2017 and is expected to reach RMB3.8 billion in 2022, according to the Frost & Sullivan Report. The growth is primarily driven by the development of the automobile industry in China, the increasing demand for skilled workers with knowledge and trainings in the latest repair and maintenance technologies and services requirements as well as automobile decoration and modification, the increasing average mileage of automobiles, and rising transaction volume of used car. In addition, the favorable government policies such as “Made in China 2025 (中國製造 2025)” issued by the State Council in 2015, and “Development Planning Guidelines for Manufacturing Talents (製造業人才發展規劃指南)” released in 2016 have also ensured the health development of the talents in such areas.



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### Total Revenue of Auto Services Vocational Training Education (China), 2013-2022E

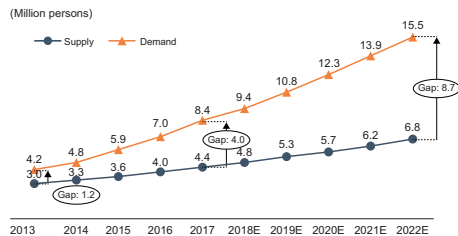
(RMB Billion)



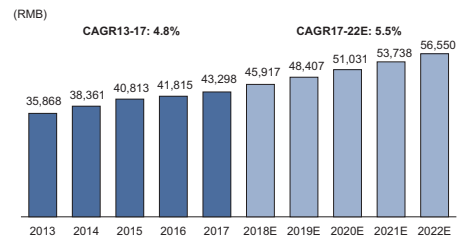
Source: Frost & Sullivan

The table below sets forth the unmet demand of skilled workers in the auto services industry and expected salary increase, indicating potential opportunities for the auto services vocational training education market growth.

#### Supply and Demand for Skilled Workers Employed in Auto Services Industry (China), 2013-2022E



#### Average Annual Salary of Workers Employed in Auto Services Industry (China), 2013-2022E



Source: Frost & Sullivan

### Market Drivers of Vocational Training Education in China

The development of the vocational training education in China is primarily driven by the following factors:

- Government initiatives:** The PRC government has promulgated a series of stimulus policies and regulations to promote quality vocational education and vocational skill trainings. For example, the PRC government has promulgated the Guiding Opinions of the State Council on the Implementation of Lifelong Vocational Skills Training System (《國務院關於推行終身職業技能培訓制度的意見》), which clearly stated to strengthen the construction of vocational skills training resources and encourage the development of private vocational skills training;



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- ***Rising demand for technical talent:*** China's labor market has encountered challenges with the structural problem of lacking technical talents in recent years. The large number of new graduates with adequate theoretical knowledge but little practical skills further stimulated the rising demand for technical and skilled talents. In terms of the number of employment, the vocational training industry has seen a fast growth in the number of population employed, which includes information technology industry, culinary arts industry, auto services industry and other highly skilled industries;
- ***Continuous trend of urbanization:*** The influx of migrants from rural areas to urban areas has been increasing steadily due to China's urbanization process. The migrants are generally less educated and lack of professional and systematic skill training, and they are encouraged to attend vocational training education, aiming to meet the needs of employment in urban areas;
- ***Industrial upgrade:*** The industrial upgrade in China has led to the transformation of a large amount of traditional industries and enterprises, creating demand for new job positions with higher requirement of practical and technical skills; and
- ***Increasing competition in employment:*** More stringent recruitment requirements with a focus on practical skills have been adopted by employers. The increasing competition in job seeking market provides great potential market opportunities for the vocational training education which emphasizes on students' readily applicable practical skills and provides more diversified choices for different employment directions.

### Development Trends of the Vocational Training Education in China

Leading high quality vocational training education providers are expected to benefit from the following development trends:

- ***Closer school-enterprise cooperation:*** as vocational training education bridges the gap between students and employers, the providers are cooperating more closely with enterprises to cater the ever-changing employers' needs, including collective course development, staff skill training, talent assessment, etc;
- ***Encouragement of high quality providers:*** with the announcement of several national guidance, such as the *Guiding Opinions of the State Council on the Implementation of Lifelong Vocational Skills Training System* (《關於推行終身職業技能培訓制度的意見》), the chaotic market conditions will be improved and with the more fierce competition in the market, high quality vocational training education providers with diversified course offerings, quality teaching resources and technical and equipment support will benefit from the trend and realize steady development in the future. On the contrary, the market players with inferior management and operation capacity, weak capital strength and brand building ability will be eliminated quickly;

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- **More comprehensive services:** apart from skills teaching, vocational training education institutions will provide a more comprehensive spectrum of services to help foster students' career. For example, loan services will be provided to students with difficulty in paying tuition; customized employment recommendation and career counselling services will be given to help students find jobs; and
- **Larger student scale:** with the continuous technology development and industry upgrade, talents are required to receive more up-to-date trainings. Given the practice-oriented nature and availability of multiple teaching methods, including offline, online and combination of offline and online, the vocational training education providers are expected to attract more students in the future.

### Threats and Challenges of Vocational Training Education in China

- **Fierce competition environment:** With the growing maturity of China's vocational training education market, the products provided by institutions will be more and more homogeneous. Nevertheless, the requirements of customers will be more strict and the taste of customers will be more diversified. Thus, research and development ability will be extremely critical for the players in the future competition.
- **Pressure from formal education:** Students aged from 15 to 21 years old which consist of graduates from middle schools, high schools, secondary vocational schools and junior colleges and universities are one of the major groups choosing vocational education. However, with the increasing emphasis on academic degrees in recent years, the number of formal education school students has increased, posing a threat to student recruitment of vocational training education.

### Competitive Landscape of the Vocational Training Education in China

According to the Frost & Sullivan Report, the vocational training education market in China is highly fragmented with thousands of vocational training education providers, and none of the players has a sizable market share as vocational training education providers tend to focus on a particular industry segment locally or nationwide. Leading players usually adopt self-operated business model, while most of the players choose franchise model. We are the largest vocational training education provider in China as a whole and as well as the largest player in each of the industry sector that we operate, in terms of average students enrolled in 2017. According to the Frost & Sullivan Report, the top three vocational training education players, in aggregate, accounted for 2.5% of total market in terms of average students enrolled in 2017. We are the largest vocational training education provider in China with 102,050 average students enrolled as of December 31, 2017, representing a market share of 1.7%, the second and third largest providers had average students enrolled of 32,275 and 20,023 as of December 31, 2017, respectively, representing a market share of 0.5% and 0.3%, respectively.

The culinary vocational training education market is relatively concentrated in China, with the top three market players accounting for 26.9% of market share in terms of average students enrolled in 2017. We ranked the largest in the culinary vocational training education market with 65,372 average students enrolled as of December 31, 2017, representing a market share of 23.1%. The information technology vocational training education market in China is relatively fragmented, with the top three market

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players accounting for 9.9% of market share in terms of average students enrolled in 2017. We ranked the largest in the information technology vocational training education market with 21,442 average students enrolled as of December 31, 2017, representing a market share of 3.4%. The auto services vocational training education is a relatively concentrated market in China, with the top three players accounting for 20.5% of market share in terms of average students enrolled in 2017. We ranked largest in the auto services vocational training education market with 15,236 average students enrolled as of December 31, 2017, representing a market share of 9.7%. The following tables set forth the leading players in the industry segments that we operate:

Leading Culinary Arts Vocational Training Education Providers in China, 2017			Leading Information Technology Vocational Training Education Providers in China, 2017			Leading Auto Services Vocational Training Education Providers in China, 2017		
Group	Average Students Enrolled	Market share (%)	Group	Average Students Enrolled	Market share (%)	Group	Average Students Enrolled	Market share (%)
The Group	65,372	23.1	The Group	21,442	3.4	The Group	15,236	9.7
Group A	8,077	2.9	Group C	20,882	3.3	Group E	15,000	9.5
Group B	2,600	0.9	Group D	20,023	3.2	Group F	2,000	1.3

Source: Frost & Sullivan

### Entry Barriers of the Vocational Training Education in China

According to the Frost & Sullivan Report, the PRC vocational training education industry generally has the following entry barriers:

- **Brand reputation:** consumer recognition is a crucial factor that distinguishes a brand from others in the increasingly competitive vocational training education industry. It is difficult for new entrants to establish a sizable business network quickly;
- **Management Capability:** as classroom-based education is still the main model of vocational training education in China. Therefore, the site selection, teachers recruitment, course offering, supporting facilities and equipment, and other critical factors determined by the management may influence the quality and reputation of the vocational training education provider;
- **High-quality teacher resources:** resources of high-quality teachers with both theoretical knowledge and relevant industry experience are limited, especially in second and third tier cities;
- **Capital strength:** establishing a vocational training education institution requires large capital investment including, among others, building infrastructure, developing curriculum offerings, retaining teachers, improving brand image and expanding the school network; and
- **Strict regulatory license:** vocational training education institutions are subject to various PRC laws and regulations. Certain licenses and PRC government approvals are required before a school commences operations.