Potential investors should consider carefully all the information set out in this document and, in particular, should evaluate the following risks associated with the investment in our [**REDACTED**]. *You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or on the* [**REDACTED**] *of our Shares, and could cause you to lose all or part of your investment.*

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and our industry; (ii) risks relating to our Contractual Arrangements; (iii) risks relating to doing business in China; and (iv) risks relating to the [**REDACTED**].

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

New legislation or changes in the PRC regulatory requirements regarding private higher education may affect our business, financial condition, results of operations and prospects. We are subject to uncertainties brought by the 2016 Decision, the 2021 Implementing Regulations and Related Implementation Rules.

The 2016 Decision and Related Implementation Rules

The private higher education industry in the PRC is subject to various laws and regulations. Relevant laws and regulations could be changed to regulate the development of the education industry, in particular, the private education markets from time to time. For example, the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》) was promulgated in December 2002, was amended in June 2013, and further amended in November 2016 and December 2018 and took effect on September 1, 2017 and December 29, 2018, respectively. Pursuant to the 2016 Decision, private schools will no longer be classified as either schools for which school sponsor(s) require reasonable returns or schools for which school sponsor(s) do not require reasonable returns. Instead, school sponsor(s) of a private school may choose for the school to be a for-profit private school or a non-profit private school, with the exception that private schools providing compulsory education must be non-profit. As of the Latest Practicable Date, we had not made a decision to register our College as a for-profit private school or a non-profit private school. For details of the 2016 Decision, including the key differences between a for-profit private school and a non-profit private school under the 2016 Decision, see "Business — Potential Implications of the 2016 Decision and Related Implementation Rules — Potential Impact on us of the 2016 Decision and the 2021 Implementing Regulations" in this document.

The election to register our College as a non-profit or for-profit private school may have a material impact on our business, financial condition and results of operations, of which we are currently not in a position to accurately assess due to the absence of any further detailed implementation rules under and interpretations of the 2016 Decision and the 2021 Implementing Regulations.

In addition to the 2016 Decision, certain implementing rules were jointly promulgated by certain governmental departments at the state level. See "Regulatory Overview — Regulations on Private Education in the PRC" in this document for details.

On July 11, 2018, the General Office of the People's Government of Shanxi Province promulgated the "Shanxi Opinions". According to the Shanxi Opinions, school sponsors can freely elect to establish for-profit schools or non-profit schools with the exception that private schools providing compulsory education must be non-profit. Sponsors of non-profit private schools do not obtain school operating income, and operating balances are all used for running schools; sponsors of for-profit private schools can obtain school operating income, and distribution of the school balances are based on relevant state regulations. Private schools which provided education services other than compulsory education and were approved for establishment before November 7, 2016 shall submit in writing their decisions to convert into for-profit or non-profit schools within five years from July 2018 which was confirmed in our interview with the Department of Education of Shanxi Province. Furthermore, on December 30, 2019, the Department of Education of Shanxi Province, the Department of Human Resources and Social Security of Shanxi Province, the Department of Civil Affairs of Shanxi Province, the Office of the Organization Committee of Shanxi Province and the Administration for Market Regulation of Shanxi Province jointly issued the Implementation Measures of Classified Registration of Private Schools in Shanxi Province (《山西省民辦學校分類登記實施辦法》) (the "**Shanxi Measures**"), which includes the requirements and procedures of approval for establishment, classified registration, change of registered events, termination and cancelation of registration, classified registration of existing private schools. See "Regulatory Overview — Regulations on Private Education in the PRC" in this document for details.

Major uncertainties and legal implications under the 2016 Decision and relevant implementation rules which we may be susceptible to include:

- if we elect to register our College as a for-profit private school, we will be required to (i) make financial settlement; (ii) clarify the property rights of the relevant assets, such as land, school buildings and net balance be authenticated by the relevant governmental authorities; (iii) pay the relevant taxes and fees; and (iv) re-register with the relevant government authorities to continue the school operations. In particular, the current legislations are silent as to the tax treatment of a for-profit private school and more specific provisions are yet to be introduced. Consequently, we are unable to accurately evaluate the potential impact on the tax liabilities our College may be exposed to at this stage and we could even have additional tax imposed retrospectively after we choose for our College to be a for-profit private school. In addition, due to the rather limited government support available to a for-profit private school, our College may no longer enjoy similar government support as non-profit private schools. In the absence of any detailed implementation rules or further guidelines, we are not be able to predict or estimate the potential costs and expenses to be involved, which may materially and adversely affect our business, financial condition and results of operations; or

- if we elect to register our College as a non-profit private school, (i) our College will not be permitted to distribute the operating proceeds to its sponsors and the surplus from the school operations can only be applied to its continued operations; (ii) the provincial government authorities may impose restrictions on our College fees, including the range and type of fees chargeable and approval or filing requirements; and (iii) the sponsors of our College shall amend the constitutional documents and re-register with the relevant government authorities to continue its operations. We may incur significant administration and other expenses and costs during the re-registration process, which may materially and adversely affect our business, financial condition and results of operations.

For more details of the potential impact on us of the 2016 Decision and related implementing rules, see "Business — Potential Impact on Us of the 2016 Decision and Related Implementing Rules" in this document.

While we intend to comply with all new and existing laws and regulations, we cannot assure you that we will always be deemed to be in full compliance with such new laws and regulations in a timely manner, as their interpretation may remain uncertain, nor can we assure you that we will always be able to timely and efficiently change our business practice in line with the new regulatory regime. Should we fail to fully comply with the 2016 Decision, the 2021 Implementing Regulations or any relevant implementing rule or regulation as interpreted by the relevant government authorities, we may be subject to administrative fines or penalties or face other negative consequences that could materially and adversely affect our brand name and reputation, and, in turn, our business, financial condition and results of operations.

The 2021 Implementing Regulations

On May 14, 2021, the State Council released the 2021 Implementing Regulations, which will take effect from September 1, 2021. The 2021 Implementing Regulations made certain significant changes to certain provisions of the 2004 Implementing Regulations which may affect private schools.

The 2021 Implementing Regulations stipulate further provisions of the operation and management of private schools including, among other things, (i) a private school may enjoy the preferential tax policies, which are not defined thereunder, as stipulated by the State and a non-profit private school may enjoy the same tax policies as enjoyed by a public school; (ii) local governments shall grant preferential treatment in terms of land use by means of allocation in accordance with the principle of treating non-profit private schools equally as public schools, and for schools that provide education for academic qualifications, may provide land by means of bid invitation, auction or listing, assigning contracts, long-term lease or combination of sale and as rental, and may allow such schools to settle in installments; (iii) private schools providing compulsory education are not allowed to enter into transactions with Interested Parties, which include the sponsor, the actual controller (實際控制人), the principal, the director, the supervisor, the person in charge of the financial affairs of a private school, and any organization or individual that has mutual control or influence over the above-mentioned organizations or individuals which may lead to any interest transfer of private schools ("**Interested Parties**"), while other private schools shall conduct transactions with their Interested Parties in a manner that is open, justified and fair, conducted at reasonable pricing, and subject to standardized decision-making established for such transactions and not harmful to the interests of the State, school, teachers and students. Private schools shall set up an information disclosure mechanism for dealing with their Interested Parties; (iv) the relevant governmental authorities, such as the education department, the human resources and social security departments and the financial department, shall strengthen supervision over agreements signed between non-profit private schools and their Interested Parties, and shall review such transactions annually; (v) the registered capital of a private school shall be paid in full when it is formally established and shall be compatible with the type, level and scale of the school; (vi) at the end of each financial year, a for-profit private school must set aside not less than 10% of its audited annual net profit, and a non-profit private school of its audited annual net increase in assets, as a development fund, which shall be used for the development of the school; and (vii) public schools providing compulsory education shall not establish or participate in the establishment of private schools. Other public schools are not allowed to hold or participate in the organization of for-profit private schools. Public schools providing vocational education can establish or participate in the vocational education for-profit private schools. If a public school establishes or participates in the establishment of a private school, it shall first obtain approval from government authorities, and shall not use the state's fiscal funds, affect the public school's teaching activities, or obtain management fees or other means to obtain or disguise the proceeds of schooling. While we currently expect to register our College as a for-profit private school under the current PRC laws, our eligibility to register as a for-profit private school is subject to potential further restrictions and specific conditions stipulated by future laws, regulations and rules. We cannot assure you that we will be able to fulfill the requirements under any relevant future laws, regulations or rules successfully or in a timely manner or at all, which may bring uncertainty to our eligibility to be registered as a for-profit private school.

We may be required to pay land transaction fees to the local land resources bureaus for the land acquired through land allocation or under any other preferential treatment of the local governments. We may need to use internally generated funds from our Group's operations to pay land transaction fee, which could create strains on our financial condition and adversely affect our business operations.

The implementation of the 2021 Implementing Regulations may also have an impact on our expansion strategy. According to the 2021 Implementing Regulations, no social organizations or individuals are allowed to control compulsory education private schools or non-profit private schools which offer preschool education through mergers or contractual arrangements. As advised by our PRC Legal Advisors, we may not be able to acquire compulsory education private schools or non-profit private schools which offer preschool education held by others using methods such as mergers or "contractual arrangements". Furthermore, pursuant to the 2021 Implementing Regulations, if the sponsor is a legal person, its controlling shareholder and the actual controller must meet the requirements stipulated by laws and administrative regulations for the establishment of a private school, and any change of the controlling shareholder or the actual controller, must be reported to the competent department for record-filing and publicity. We cannot assure you that such requirements will be always fulfilled successfully or in a timely manner or at all, which may bring more uncertainty to our expansion plan.

Under the 2021 Implementing Regulations, we may incur substantial compliance costs for establishing disclosure mechanisms and undergoing review by the relevant government authorities. Such process may not be in our control and may be highly complicated and burdensome, and may divert management attention. Government authorities may, during their review process, compel us to make modifications to the Contractual Arrangements, which may in turn adversely affect the operation of the Contractual Arrangements. Government authorities may also find that one or more agreements underlying the Contractual Arrangements do not comply with applicable PRC laws and regulations and may subject us to severe penalties, resulting in material adverse impacts on our operations and financial condition.

As of the Latest Practicable Date, we had not been notified of or been subject to any material fines or other penalties under any PRC laws or regulations in respect of our Group's existing corporate structure, including the use of the Contractual Arrangements. If our Group's existing corporate structure or the Contractual Arrangements are deemed to violate any rules, laws or regulations, we may be required to terminate or amend the Contractual Arrangements, our license to operate private schools may be revoked, canceled or not renewed and we may be exposed to other penalties as determined by the relevant government authorities. We may also be restricted from further expanding our College or business operation. If such situations occur, our business, financial condition and prospects would be materially and adversely affected.

We are subject to extensive governmental approvals and compliance requirements for establishing our campuses and school premises and several of the properties we use for our operations are not in compliance with applicable laws and regulations.

From time to time, we may renovate existing premises or construct new buildings to ensure that our educational facilities are fitted with appropriate technologies or to enhance convenience and comfort for our students and staff. We may establish new campuses and school premises as we grow and expand our business operations. For campuses and school premises constructed and developed for our College, we must obtain various permits, certificates and other approvals from the relevant administrative authorities at various stages of the property development, including, for example, the construction planning permit, the construction commencement permit, construction completion inspection, the fire control design and inspection, the fire control inspection and acceptance, the environmental acceptance check and building ownership certificates. We may in the future encounter problems in fulfilling the conditions precedent to obtain those certificates, permits and pass those inspections and acceptance checks, and we may not always be able to obtain them in a timely manner, or at all.

In particular, some of the properties we currently use for our operations are not in compliance with applicable laws and regulations in the PRC. As of the Latest Practicable Date, we had not (i) obtained land use right certificates or real estate title certificates for land with an aggregate site area of approximately 124,803.8 sq. m., representing 25.9% of the total land used by our College; (ii) obtained real estate title certificates or building ownership certificates for buildings with an aggregate gross floor area of approximately 244,153.1 sq. m., representing 64.7% of the aggregate gross floor area of all the buildings owned and used by us; and (iii) obtained all relevant permits or carried out all relevant regulatory requirements, including one or more of: completing the fire control design and inspection before commencement of construction, fire control inspection and acceptance before putting properties into use, commencing construction in accordance with the construction planning permit, obtaining construction commencement permit before commencing construction, completing construction project completion acceptance check before putting properties into use and filing the requisite construction project completion acceptance check for buildings with an aggregate gross floor area of approximately 377,555.7 sq. m., representing 100.0% of the aggregate gross floor area of all the buildings owned and used by us. For further details on non-compliance of our properties with applicable regulations see "Business — Properties" in the document.

As a result of these issues, our right to occupy and use these properties may be limited or challenged by the relevant government authorities or third parties. The risks in connection with the non-compliance of these properties generally include the following:

- as advised by our PRC Legal Advisors, relevant land administration authority may (i) require us to return the improperly occupied land for which we have not obtained land use right certificates, (ii) confiscate the buildings and other facilities on such lands; and (iii) impose us a fine of not more than RMB30 per sq. m.;

- for construction work that is carried out without a construction planning permit, the license issuing authority with jurisdiction shall order the construction to be ceased, and (i) we may be subject to a fine ranging from 5% to 10% of the construction cost and ordered to rectify the impact on the planning caused by such construction, if such impact can be rectified; or (ii) we may be subject to a fine of not more than 10% of the construction cost and the confiscation of the building and/or any income illegally earned from such construction, if such impact cannot be rectified and the building cannot be demolished;

- for construction work that is carried out without a construction commencement permit, the license issuing authority with jurisdiction shall (i) order the construction to be ceased; (ii) order rectification within a prescribed time limit; and (iii) impose a fine of not less than 1% and not more than 2% of the contract price of the construction;

- for buildings that were constructed without passing fire control design and inspection prior to commencement of construction, we are subject to the risk of being prohibited from using these buildings or being ordered to close our business relevant to the affected buildings and being fined between RMB30,000 and RMB300,000 per building;

- for buildings that were put into use without passing the fire control inspection and acceptance, we are subject to the risk of being prohibited from using these buildings or being ordered to close our business relevant to the affected buildings and being fined between RMB30,000 and RMB300,000 per building;

- for construction projects we have put into use without passing the construction project completion acceptance check, we may be ordered to rectify and may be obliged to pay compensation where any damage has been caused. A fine of not less than 2% but not more than 4% of the contract price of the construction may also be imposed; and

- for construction projects for which we did not file construction project completion acceptance check, we may be ordered to rectify and may be subject to a fine between RMB200,000 and RMB500,000 per building.

As of the Latest Practicable Date, we were not aware of any actual or contemplated actions, claims or investigations by any government authorities or third parties against us with respect to the above non-compliance. As confirmed by our Directors, we are in the process of applying for the required certificates and permits and fulfilling the assessment procedures and are closely following up with the government authorities with respect to our applications. However, we cannot assure you that the relevant authorities will not interpret, implement or enforce the relevant rules and regulations differently. In addition, we cannot assure you that we will not encounter any impediment in applying for the relevant certificates and permits or fulfilling the assessment procedures. If any of these risks materializes our business, financial condition and results of operations may be materially and adversely affected.

In particular, the non-compliance issues concerning certain land and buildings used by our College involve a considerable gross floor area and any regulatory enforcement action may potentially result in material disruptions to our operations, which may in turn have a material adverse effect on our financial condition. There can be no assurance that we will not be requested to vacate the lands and buildings with non-compliance issues in the future which will force us to find a suitable alternative location to accommodate the relevant students. Such relocation may be materially disruptive to our operations and the learning environment of our students. Our relocation plan may also experience significant delay for various reasons that we may have limited or no control over, including any delay in obtaining the relevant certificates and permits required for the construction of the new buildings and facilities to commence, delay in compliance with various inspection and assessment procedures before any school building or facility can be put to use and delay or default by our building contractors. We have limited prior experience in executing and implementing any relocation plan of this scale. As such, we cannot assure you that the relocation plan will be implemented and executed successfully (or at all) as scheduled and that the relocation plan will be an adequate mitigation against the potential risks of non-compliance. We may face regulatory enforcement actions from the relevant government authorities before the implementation of the relocation plan is complete. If any of the above risks materializes, our business, financial condition and results of operations may be materially and adversely affected.

In addition, for our planned construction of a teaching building, a library and a gymnasium located on our Beige campus with a proposed gross floor area of approximately 73,129.5 sq. m., as of the Latest Practicable Date, (i) we had not obtained the requisite construction planning permit and construction work commencement permit, and (ii) we had not commenced construction. There is no assurance that we will be able to obtain and/or pass requisite permits, certificates or inspections for campuses and school premises we constructed and/or will develop and construct in the future. If we fail to do so, we may not be able to commence construction, which could disrupt our business plans and cause us to incur additional expenses. This, in turn, may have a material adverse effect on our business, prospects, financial condition and results of operations.

Our financial position and results of business operation may be materially and adversely affected by the outbreak of COVID-19.

Beginning in early 2020, the outbreak of COVID-19 epidemic in China has endangered the health of many people residing in the PRC and significantly disrupted travel and the local economy across the country. COVID-19 has had a severe and negative impact on the Chinese and global economies. Whether this will lead to a prolonged downturn in the economy is still unknown. Due to the outbreak of COVID-19, we temporarily closed our College campuses in March 2020 and started to provide education services to our students via third-party online platforms. We postponed the commencement of the spring semester of the 2019/2020 school year for our College and established different back-to-school timelines for students until May and June 2020. Pursuant to the Notice, we were not required to refund any tuition fees to our students. However, we were required to refund to our students a portion of boarding fees we collected at the beginning of the 2019/2020 school year. We refunded RMB5.4 million in boarding fees that we collected from students at the beginning of the 2019/2020 school year to account for the fact that students were unable to board at our College for much of the second semester of the 2019/2020 school year due to the COVID-19 pandemic. In the event we are unable to successfully render services to our students, we may be subject to claims to refund a portion or all of our contract liabilities, which may materially and adversely affect our business, results of operations and financial condition.

In the event of a recurrence of COVID-19 in Shanxi Province or elsewhere in China, we may be required to close our campuses and resort to online learning again. Teaching courses online may not be as effective as learning in classrooms. Students may be easily distracted while attending courses at home through the internet. Some of them may have limited access to the internet. It may also not be easy for teachers to track class attendance and adjust teaching methods and teaching materials to suit online teaching. Moreover, certain types of courses, particularly those involving practical laboratory work or simulated work environments, may be difficult to replace with online instruction. All of the above may compromise the quality and negatively impact the outcome of our courses. If we are unable to successfully adjust our teaching methods and materials and maintain the quality of education services, our business, results of operations and financial condition may be materially and adversely affected.

We own and operate a single college and are exposed to significant concentration risks.

During the Track Record Period, we owned and operated a single private college in Taiyuan City, Shanxi Province, the PRC, namely Shanxi Technology and Business College, which generated all of our revenue during the Track Record Period. As such, we are exposed to significant concentration risks and any adverse effect on the reputation, performance, facilities or profitability of our College due to risks highlighted in this section or otherwise effectively applies to our entire business. In addition, as all of our facilities are located in Taiyuan City, Shanxi Province, the PRC and we anticipate that the vast majority of our business operations and source of revenue in the foreseeable future will likely continue to be concentrated in Taiyuan City, Shanxi Province, the PRC. Therefore, we are exposed to geographic concentration risks if Shanxi Province experiences any event negatively affecting its education industry, such as negative changes in local government policies relating to private education services, a serious economic downturn, a natural disaster or an outbreak of a contagious disease, our business, financial condition, results of operations and growth prospects may be materially and adversely affected. In addition, if the relevant government authorities in Shanxi Province implement additional rules and regulations restricting our enrollment growth, limiting the tuition or fees we may charge, or otherwise negatively impacting our business, our results of operations and growth prospects may be materially and adversely affected.

Our business is heavily dependent on our reputation.

We believe that our success is heavily dependent on the reputation of our College. Our ability to maintain our reputation depends on a number of factors, some of which are beyond our control.

Factors which could potentially impact our reputation, include, among others, levels of students' and parents' satisfaction with our program and curriculum offerings, teachers and teaching quality, ability of our graduates to find satisfactory employment, accidents on campus, negative press, disruptions to our educational services, failure to pass inspections by the relevant education authorities, loss of certifications and approvals that enable us to operate our College in the manner it is currently being operated, and unaffiliated parties using our name or brand without adhering to our standards of education. We may also experience negative publicity or a decrease in word-of-mouth referrals. Any such negative developments could have an adverse impact on our reputation and result in students' withdrawal from or unwillingness to apply to our College. If our reputation is damaged, students' and parents' interest in our College may diminish and our business could be materially and adversely affected.

We have established and developed our student base primarily through word-of-mouth referrals and student recruitment events. Specifically, we have (i) participated in school recruitment fairs promoted by the Admission Office of Department of Education of Shanxi Province, which is in charge of higher education recruiting within Shanxi Province, and (ii) put promotional advertisements online. However, we cannot assure you that such methods will be sufficient in the future or that any additional marketing efforts we may undertake will be successful or sufficient in further promoting market awareness or in helping us to attract sufficient student interest in our College. If we are unable to further enhance our reputation and increase market awareness of our programs and services, or if we are required to incur excessive marketing and promotional expenses in order to remain competitive, our business, financial condition and results of operations may be materially and adversely affected. If we are unable to maintain or sustain our reputation, we may also be unable to maintain or increase student enrollment, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business and results of operations depend on the level of tuition fees and boarding fees we are able to charge and our ability to maintain and raise tuition fees and boarding fees.

One of the most significant factors affecting our profitability is the tuition and boarding fee rates we charge at our College. For the years ended August 31, 2018 and 2019 and 2020 and the four months ended December 31, 2020, our revenue generated from tuition fees were RMB247.3 million, RMB245.2 million, RMB255.2 million and RMB100.8 million, respectively, accounting for 92.5%, 92.1%, 94.1% and 91.4%, respectively, of our total revenue. During the same periods, our revenue generated from boarding fees were RMB20.1 million, RMB21.0 million, RMB15.9 million and RMB9.5 million, respectively, accounting for 7.5%, 7.9%, 5.9% and 8.6%, respectively, of our total revenue. The tuition we charge is typically determined based on guidance provided by the relevant pricing authorities in the PRC, the demand for our educational programs, the cost of our operations, the geographic markets, the tuition fees charged by our competitors and general economic conditions in China.

As of the Latest Practicable Date, our tuition fees and boarding fees are included in the Shanxi provincial price catalog published in 2015 and as such, are decided by the government or subject to governmental approval. There can be no assurance that we will be able to maintain or raise the tuition and/or boarding fee levels we charge at our College in the future. In the event we elect our College to become a for-profit private school under the 2016 Decision, our tuition fee rates will be determined primarily based on guidance issued by the relevant pricing bureau, the demand for our educational programs, the cost of our operations, the geographical markets, the tuition rates charged by our competitors and general economic conditions in Shanxi Province and the PRC in general. Even in such case, there can be no assurance that we will be able to maintain or raise the tuition fees and boarding fees at our College in the future. Moreover, even if we are able to maintain or raise tuition fees or boarding fees, we cannot assure you that we will be able to attract prospective students to apply for our College at the current fee rates or at all. Moreover, our business, financial position and results of operations may be materially and adversely affected if we fail to maintain or raise the tuition fees and boarding fees levels, attract sufficient prospective students or collect tuition fees and boarding fees on time.

Furthermore, some of the students who have enrolled at our College may experience financial difficulties in paying full tuition fees and boarding fees when they become due. While our College has provided scholarships and grants to certain qualified students in the past, we cannot guarantee we will be able to fully recover their tuition fees and boarding fees. Consequently, in the event such students are unable to make full payments in a timely manner, or at all, we may be forced to recognize impairment losses on trade receivables, which could have a material and adverse impact on our results of operations and financial condition.

Our business, financial condition, and results of operations depend largely on the number of students our College may admit, which in turn is subject to the admission quota approved by the relevant education authorities and limited by the capacity of our College's facilities. Our ability to expand our business may also be hindered.

Each year the education authorities specify a quota for the number of new full-time students our College may admit. The number of full-time students our College may admit is therefore subject to a quota set and approved by the Shanxi Development and Reform Commission (山西省發展和改革委員會) and the Department of Education of Shanxi Province each school year on a year-by-year basis, subject to any adjustments agreed by the education authorities. The main factors these education authorities take into consideration include capacity, current status of school development, enrollment and registration in previous years, teaching quality and the employment rate of graduates. For the 2017/2018, 2018/2019, 2019/2020 and 2020/2021 school years, our admission quota was 4,955, 4,250, 4,660 and 5,000 students, respectively and our utilization rate of the admission quota was 87.2%, 93.3%, 96.6% and 96.8%, respectively. See "Business — Our Student — Student Enrollment and Capacity" in this document for details of our historical enrollment and school capacity. Student enrollment plays a large part in determining our total revenue. In addition, the number of students we are able to admit at our College is also constrained by the size of our educational facilities, the size of the dormitories and number of beds available for students on campus, which are limited in space and size. Our total school capacity for the 2017/2018, 2018/2019, 2019/2020 and 2020/2021 school years was 17,256, 16,812, 19,325 and 19,010 students, respectively and our utilization rate of such capacity was 97.6%, 96.8%, 86.0% and 90.7%, respectively.

We cannot assure you that we will be able to successfully increase student enrollment capacity at our College, which is subject to the approvals of the relevant education authorities, and which is beyond our control.

If we fail to admit all qualified students who are interested in enrolling in our College due to these capacity constraints or student enrollment quota limitations, we may not be able to maintain our historic enrollment levels or to grow our student enrollment. Thus, we may not be as successful in carrying out our growth strategies and expansion plans as we would have anticipated, which may have a material and adverse effect on our business, financial condition and results of operations.

If the admission quota for our College does not increase or even decreases in the future, which results in a decrease in the total number of our admitted students, our total revenue may not grow as expected or may decline, which in turn will have a material and adverse impact on our business, financial condition and results of operations.

In addition, there can be no assurance that the overall yield (報到率) of our College, which is defined as the number of new students who enrolled in our College divided by the total number of students to whom we extended offers for admission in such school year, will remain stable. For example, some College applicants who have been admitted to our College may choose not to register, and decide to re-take the National Higher Education Entrance Examination the following year. If the number of such students increases, which will impact the number of our enrolled students, our business, financial position and results of operations may, in turn, be materially and adversely affected.

Our business relies substantially on our ability to recruit and retain dedicated and qualified teachers and other school personnel.

We rely substantially on our teachers to deliver our educational services to students. Our teachers are critical to maintaining the quality of our programs and services and to upholding our reputation. As of December 31, 2020, we had a team of 558 full-time teachers and 544 part-time teachers.

To maintain the quality of education provided to our students and further grow our business, we need to continue to attract qualified and experienced teachers who have a strong command of their respective subject matters and meet our standards. We seek to hire teachers with expertise and experience in their respective subject areas as well as being able to deliver clear and practical classroom instruction that keeps students engaged. In addition, given the strong practical focus of our College, we also look for teachers with practical skills and work experience in their respective relevant industries. We believe there are a limited number of teachers with the necessary experience and qualifications to teach our courses. For the 2017/2018, 2018/2019 and 2019/2020 school years, the retention rate of our full-time teachers was 89.8%, 91.1% and 91.9%, respectively. There can be no guarantee that we will be able to recruit and retain those teachers in the future. As a result, we believe that we may need to provide competitive compensation and benefits packages to attract and retain qualified teachers and school administrative personnel.

In addition, criteria such as work ethic, commitment and dedication are difficult to ascertain during the recruitment process, particularly as we continue to expand and recruit teachers and other school personnel quickly in order to meet the anticipated rising trend of student enrollment. We must also provide on-going training to our teachers so that they can stay abreast of changes in industry standards and student demands to effectively teach their respective courses.

We may not be able to identify, hire and retain a sufficient number of qualified teachers and qualified school administrative personnel to keep pace with our anticipated growth, or our training may not be adequate for our teachers to meet our standards of education which we believe will continue to evolve with the latest developments in our industry in the geographical regions we serve. If we are unable to recruit and retain an appropriate number of qualified teachers and qualified school administrative personnel, or if the training we provide to our teachers turns out to be inadequate, the quality of our services or overall education programs may deteriorate or be perceived to deteriorate in our College, which may have a material and adverse effect on our reputation, business and results of operations.

We may not be able to execute our expansion strategies successfully or effectively, which may hinder our ability to capitalise on new business opportunities.

Our growth has placed, and will continue to place, significant pressure on our management and resources. We plan to initiate construction of Phase IV of our Beige campus which comprises of a teaching building, a library and a gymnasium. This phase will add an aggregate proposed gross floor area of approximately 73,129.5 sq. m. to our Beige campus, and will include a teaching building with a total proposed gross floor area of approximately 17,766.5 sq. m., a library with a total proposed gross floor area of approximately 48,653 sq. m. and a gymnasium with a total proposed gross floor area of approximately 6,710 sq. m. We are currently in the process of applying for approvals for our adjusted plans and construction permits from the local governmental authorities. See "Business — Our Business Strategies — Increase our College's capacity and student body and improve the teaching and living environment by building new facilities" for details. In addition to expanding our College in China, with the aim of building our presence overseas and creating synergies with our college in China, we plan to establish and operate General Business University of California Incorporated, a higher education institution in California, the United States. See "History and Corporate Structure — School to be Established — New school in the California" for details. We may not succeed in executing our growth strategies due to a number of factors, including our failure to do the following:

- effectively execute our expansion plans;
- increase student enrollment in our College;
- admit all qualified students who would like to enroll in our College due to the capacity constraints of our school facilities;
- continue to enhance our course materials or adapt our course materials to student needs and teaching methods;

- replicate our successful growth model in new markets or new geographical locations outside Shanxi Province;
- obtain the requisite licenses and permits from the authorities necessary to open new schools at our desired locations;
- achieve the benefits we expect from our expansion;
- identify suitable acquisition targets;
- effectively integrate any future acquisitions into our Company;
- cooperate and establish partnership with potential third party partners;
- obtain government support or to partner with local governments in cities where we already have schools or in cities or areas to which we plan to expand our operation;
- effectively market our College or brand in new markets or promote ourselves in existing market; and
- expand our education resources by diversifying our service offerings and increase transaction volume.

Any failure to effectively and efficiently manage our expansion strategies, may materially and adversely affect the quality of our overall educational services and limit our ability to capitalize on new business opportunities, which in turn may have a material adverse effect on our business and financial results.

With respect to General Business University of California Incorporated, we have no prior experience establishing or operating schools outside China, in particular, in the United States, and we may encounter barriers and challenges upon entering into such markets, including the failure to obtain relevant regulatory approvals, which may result in delays or our inability to carry out our overseas expansion plans. We may also overestimate the market demand for our educational services in the United States or underestimate the costs associated with the establishment and operation of General Business University of California Incorporated. In addition, we may need to make significant investments in developing schools overseas and may not be able to effectively manage our costs or generate sufficient revenue to justify the investments we make. We cannot assure you we will be able to successfully establish and/or operate schools overseas. If we are unable to do so, our business, financial condition and results of operations may be materially and adversely affected.

We may expand our operation through acquisitions of or investments in additional schools. If we fail to execute this expansion strategy successfully, our business, financial condition and results of operations may be materially and adversely affected.

One of our growth strategies is to grow our business and expand our school network by acquiring or investing in private institutions of higher education that have substantial growth potential. See "Business — Our Business Strategies — Expand our operations through acquisition" for details. We believe we face challenges in integrating the business operations and management philosophies of acquired schools. The benefits from future acquisitions depend, to a significant extent, on our ability to effectively integrate the management, operations, technology and personnel of the acquired schools. The acquisition and integration of acquired schools is a complex, time-consuming and expensive process that, without proper planning and implementation, may significantly disrupt our business operations and reputation. The main challenges involved in integrating acquired schools include:

- identifying suitable targets for acquisition;
- consolidating educational services offered by the acquired schools;
- complying with regulatory requirements and obtaining all necessary government approvals;
- implementing a consistent school culture if acquired schools have a culture that is averse to change and are not receptive to our education values and methods;
- integrating information technology platforms and administrative infrastructure with minimal disruptions to the existing operations of the acquired schools;
- minimizing the diversion of our management's attention from on-going business concerns;
- minimizing disruptions to existing students' studies as a result of the acquisition; and
- ensuring and demonstrating to our stakeholders that the new acquisitions or establishments will not result in any adverse changes to our established brand image, reputation, teaching quality or standards.

We have no prior experience in acquiring or investing in schools and we cannot assure you that we will be able to identify suitable targets and that our due diligence efforts will reveal all material deficiencies in the target schools. We may not successfully integrate our operations and the operations of the schools we acquire in a timely manner, or at all. We may not realize the anticipated benefits or synergies of the acquisitions to the extent, or in the timeframe we had anticipated, which may result in material adverse effects on our business, financial condition and results of operations. We cannot assure you that we will be able to manage or minimize the disruptions to the acquired schools as a result of a change in management. Failure to do so may result in adverse effect on our reputation, financial condition, and the results of operations.

There can be no assurance that we will always be able to successfully render educational services to our students and failure to do so may subject us to claims for refunds of tuition fees and/or boarding fees.

Due to the nature of the business operation of our College, we derive revenue mainly from tuition fees and boarding fees paid by the students of our College. We generally require tuition fees and boarding fees to be paid by our students in advance prior to the beginning of each school year, which are initially recorded as contract liabilities and are proportionately recognized as revenue when the relevant services are rendered to our students during the school year. We recorded contract liabilities of RMB221.2 million, RMB203.5 million, RMB2.5 million and RMB180.0 million as of August 31, 2018, 2019 and 2020 and December 31, 2020.

The delivery of our services to the students may be disrupted by unforeseeable events, such as outbreak of contagious diseases, occurrence of force majeure events, regulatory changes and/or natural disasters. In the event we are unable to successfully render services to our students, we may be subject to claims to refund a portion or all of our contract liabilities, which may materially and adversely affect our business, results of operations and financial condition.

We face intense competition in the PRC education industry. If we are unable to compete effectively, our business, financial condition and results of operations may be adversely affected.

According to the Frost & Sullivan Report, the private higher education industry in China is rapidly evolving and is highly fragmented and competitive, with participants in the industry facing increasingly intense competition. We primarily compete with public schools and other private schools in Shanxi Province and elsewhere in China that offer similar programs, including universities that also specialize in the applied sciences. We compete with these schools across a range of factors, including program and curriculum offerings, school location and facilities, expertise and reputation of teachers, tuition fee levels, and cooperative relationships with reputable companies in various industries. Public schools may enjoy preferential treatment from governmental authorities in respect of, among other things, government subsidies. Our competitors may adopt similar curriculums, teaching methods, school support and marketing approaches, with different pricing and content that may be more appealing to students and their parents. In addition, some of our competitors may have better connections with companies in various industries or more resources than we do and may be able to devote greater resources than we can to the development and promotion of their schools and respond more quickly than we can to the changes in student demand, market needs or new technologies. As such, we may be required to reduce tuition fees and boarding fees or increase spending in response to competition in order to retain or attract students or pursue new market opportunities. If we are unable to successfully compete for new students, maintain or increase our tuition levels, attract and retain competent teachers or other key personnel, enhance the quality of our education services or control competition costs, our business and results of operations may be materially and adversely affected.

Our business depends on our ability to promptly and adequately respond to changes in market demand.

Generally, we design our curriculums based on prevalent market trends and employer preferences. During the past few years, we have developed several new majors/concentrations based on changing market trends and demand, such as artificial intelligence, home economics, aviation services art and management and preschool education (early education concentration) in our College. We intend to continue developing new courses in anticipation of market demand and industry trend. We cannot assure you that we will be able to accurately anticipate market trends and the new programs/courses we designed will achieve widespread market acceptance or generate the desired level of income for our students. If we fail to provide courses that adequately prepare our students for the evolving demands of the job market, our students may not be able to successfully find employment or the students' employment after graduation may not be satisfactory to our students or their parents or our graduates' performance may not be satisfactory to employers. As a result, our programs and services may become less attractive to students and parents. There is no assurance that we can promptly and adequately respond to changes in market demand and provide school learning experiences that are satisfactory to all of our students. As a result, we may also experience negative publicity or a decrease in word-of-mouth referrals. Any such negative developments could result in students' withdrawal from or unwillingness to apply for our College, and therefore have an adverse impact on our reputation. Furthermore, if we fail to timely develop and introduce new education services and programs in our College based on changing trend in the job market, our ability to attract students and our reputation could be materially and adversely affected, which may have a material adverse impact on our business, financial condition and results of operations.

We may not be able to obtain all necessary approvals, licenses and permits or to make all necessary registrations and filings for our education and other services in China in a timely manner, and may be subject to severe penalties if the operation of our business in China does not comply with applicable PRC laws and regulations.

The PRC education industry, including the private higher education sector, is highly regulated by, among other authorities, the MOE and other local education authorities. As a private higher education provider, we are subject to extensive laws and regulations in China, such as the Education Law of the PRC (《中華人民共和國教育法》), the Higher Education Law of the PRC (《中華人民共和國高等教育法》), the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》), and the Implementing Regulations for the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法實施條例》). We are required to obtain, renew and maintain various approvals, licenses and permits and fulfill registration and filing requirements in order to conduct our operations. For instance, to establish and operate a school, we are required to obtain a private school operating license from the local education bureau and to register with the local civil affairs bureau to obtain a certificate of registration for a privately run non-enterprise unit, or legal entity.

While we will use our best efforts to obtain all required permits and complete the necessary filings, renewals and registrations timely for our College, we cannot assure you that we are able to obtain all required permits and licenses on a timely basis, or at all, given the significant amount of discretion relevant regulatory authorities may have in interpreting, implementing and enforcing relevant rules and regulations, as well as other factors beyond our control and anticipation. If we fail to receive or obtain required permits or renew any permits and certificates in a timely manner, or at all, our business and operation of our College will be materially and adversely impacted. In addition, if the contractual agreements that establish the structure for operating our PRC business are found to be in violation of any PRC laws and regulations in the future, we may be subject to fines, confiscation of the gains derived from our non-compliant operations, the suspension of our non-compliant operations or the compensation of any economic loss suffered by our students or other relevant parties. If any of the above situations occur, our business, financial condition and results of operations could be materially and adversely affected.

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

Our future success is largely dependent on the acceptance, development and expansion of the market for private higher education services in China in general, and specifically in Shanxi Province. The private higher education services market started to develop in the early 1980s, experienced rapid growth in the 1990s, and has grown significantly because of favorable policies enacted by the PRC government. In 1997, the State Council of the PRC promulgated the first regulation to promote the private education industry in China. However, private education services on a for-profit basis were not permitted in China until September 2017 when the amendments made to the Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法》) became effective.

The development of the private higher education industry has been accompanied by significant press coverage and public debate concerning the management and operation of private schools and universities. Significant uncertainty remains in the PRC to public acceptance of this business model. In addition, there is substantial uncertainty relating to the application and interpretation of PRC law as it relates to the promotion of the private for-profit education industry. For example, certain favorable policies referenced in relevant PRC law are available to non-profit private schools, such as preferential tax treatment, as they are to public schools, while for-profit private schools are supposed to enjoy preferential tax treatment as subject to the state's provisions. To date, however, other than the Several Opinions on Encouraging Social Groups to Engage in Education and Promote the Healthy Development of Private Education (《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》) and the Implementing Rules for the Supervision and Administration of For-profit Private Schools (《營利性民辦學校監督管理實施細則》) and the Implementing Rules on Classification Registration of Private Schools (《民辦學校登記實施細則》) and the Notice of the State Administration of Industry and Commerce and the Ministry of Education on the Registration and Administration of the Name of For-Profit Private Schools (《工商總局、教育部關於營利性民辦學校名稱登記管理有關工作的通知》), no separate policies, regulations or rules have been introduced by the authorities with regard to for-profit private schools. Please refer to the section headed "Regulatory Overview — Regulations on Private Education in the PRC" in this document for further details. If the private education business model fails to gain traction or wide acceptance among the general public in China, especially among students and their parents, or if the favorable regulatory environment otherwise changes in the future, we may be unable to grow our business and the [**REDACTED**] of our Shares could be materially and adversely affected.

Our College is subject to various compliance requirements set out by the Basic Conditions for Operating Higher Education Institutions (Trial).

As advised by our PRC Legal Advisors, during the Track Record Period and up to the Latest Practicable Date, our College was subject to certain regulatory guidance requirements in relation to the prescribed ratio between our College's site area/gross floor area of the teaching and administrative buildings and the number of full-time students enrolled.

According to the Conditions, there are two types of indicators, namely, Basic Indicators and Monitoring Indicators. The ratio of our College's site area to the number of students enrolled should be not less than 54 sq. m. per student enrolled as our College falls under the school category of literature, finance and economics and law school. The ratio of school site area to the number of students enrolled is a Monitoring Indicator. As of September 30, 2017, 2018 and 2019, and October 31, 2020, our ratio of school site area to the number of students enrolled was approximately 27.8 sq. m./student, 28.5 sq. m./student, 28.8 sq. m./student and 27.9 sq. m./student, respectively. In addition, the applicable standard threshold of the ratio of our College's teaching and administrative building area to the number of students enrolled shall not be less than nine sq. m. according to the Qualified Indicators and the restrictive threshold of such ratio shall not be less than five sq. m. according to the Restrictive Indicators, as our College falls under the category of finance and economics school as stipulated by the Conditions. During the Track Record Period, our College did not comply with the standard threshold of the ratio of our College's teaching and administrative building area to the number of students enrolled but have met the restrictive threshold of such ratio requirement. See "Business — Properties — Regulatory Requirements Relating to the Ratio of School Site Area/Teaching and Administrative Building Area to the Number of Students Enrolled" and "Business — Legal Proceedings and Non-compliance" for details. We will continue monitor the situation and would obtain additional land to the extent this became required by relevant government authorities. However, the obtaining of additional land could cause us to incur significant expense and there can be no assurance that we would be able to find suitable land in a timely manner, or at all.

In addition, according to the Conditions, the teacher-to-student ratio of our College should be maintained at a level of not less than 1:18 according to the relevant Qualified Indicators and not less than 1:23 according to the relevant Restrictive Indicators. During the Track Record Period, our College did not comply with the qualified teacher-to-student ratio but has met the restrictive teacher-to-student ratio requirement under the calculation method contained in the Conditions. See "Business — Our Teachers" for details. While we understand based on the interviews with the Department of Education of Shanxi Province that the aforementioned ratios are only used as principles to guide school operation in Shanxi Province and failure to comply with such principles will not be considered as material non-compliance with the Conditions, or otherwise subject our College to any fines or result in restrictions and/or suspensions of student enrollment or other negative effects on the regular operation of our College, and in addition, our College had not received any yellow or red card, or been subject to any form of administrative penalty by any government authorities in relation to its compliance with the Conditions as of the Latest Practicable Date, we cannot assure you that the regulations relating to the ratio between school site area/building area and the number of students enrolled, or teacher-to-student ratio will not change in the future or that the relevant education authorities will not impose any fines or penalties on us for failure to comply with the regulations. If we should be deemed to be not in compliance with the relevant regulations, our business, financial condition, future prospects and results of operations may be materially and adversely affected.

Our historical financial and operating results may not be indicative of our future performance.

Our business, financial condition and results of operations may fluctuate due to a number of factors, many of which are beyond our control, such as public perception of the private higher education industry in China and our ability to maintain and increase student enrollment at our College and maintain and raise tuition and boarding fees. We cannot guarantee that we will be able to maintain and raise tuition and boarding fees, or maintain the same rates in revenue and profit in the future. We also may not be successful in continuing to increase the number of students admitted to our College due to our limited capacity, and we may not be as successful in carrying out our growth strategies and expansion plans as we would have anticipated.

Moreover, we may not sustain our past growth rates in the future, and we may not sustain our profitability on a quarterly, interim or annual basis in the future. We generally require students to pay tuition fees and boarding fees for the entire school year prior to the commencement of each school year. We recognize tuition fees and boarding fees as revenue proportionately over the periods of the applicable program. However, our costs and expenses are not necessarily recognized at the same time as our revenue. Our interim results, growth rates and profitability may not be indicative of our annual results or our future results, and our historical interim and annual results, growth rates and profitability may not be indicative of our future performance for the corresponding periods. In addition, our other income is non-recurring in nature. We may not be able to maintain the current level of other income in the future. If there is a substantial decline in our other income, our profitability may be negatively affected. See "Financial Information" in this document for further details. The [**REDACTED**] and [**REDACTED**] volume of our Shares could be subject to significant volatility should our earnings fail to meet the expectations of investors. Any of these events could cause the price of our Shares to materially decrease.

We had net cash outflow from operating activities for the year ended August 31, 2020.

For the year ended August 31, 2020, we had net cash flow used in operating activities of RMB25.4 million. The primary reason for such negative operating cash flow is that the 2020/2021 school year started later than usual due to the COVID-19 pandemic and we did not receive most tuition fees, boarding fees and miscellaneous fees from students for the 2020/2021 school year until September 2020. We cannot assure you that we will not experience negative net operating cash flows in the future, and if such situation is not managed properly, it could negatively affect our business operations and financial condition. Our future liquidity, the payment of other payables and accruals, as well as the repayment of any potential debt obligations as and when they become due, will primarily depend on our ability to maintain adequate cash inflows from operating activities and/or obtain external financings. If we are unable to maintain positive cash flows from operations, we may not be able to meet our payment obligations to support our business operations. As a result, our business, financial position, results of operations and prospects may be adversely affected.

The unavailability of any preferential tax treatment currently enjoyed by our College could materially and adversely affect our results of operations.

According to Notice of the Ministry of Finance and the State Administration of Taxation on Full Launch of the Pilot Program of Replacing Business Tax with Value-added Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》), formal educational services provided by education institutions are exempted from value-added tax. Our College did not pay PRC enterprise income tax and value-added tax in respect of income from rendering the formal education service during the Track Record Period. We have obtained confirmation from the local tax bureau via interview, which confirmed, among other things, that our College was not required to pay any PRC enterprise income tax and value-add tax during the Track Record Period in respect of the revenue generated from providing formal education services during such period.

Pursuant to the 2016 Decision, a non-profit private school may enjoy the same preferential tax treatment as a public school. In addition, pursuant to the 2016 Decision, a for-profit private school may enjoy preferential tax treatments in accordance with relevant PRC laws and regulations. Pursuant to the 2021 Implementing Regulations, a private school may enjoy the preferential tax policies, as stipulated by the State and a non-profit private school may enjoy the same tax policies as enjoyed by a public school. However, existing PRC laws and regulations, including the 2016 Decision as amended in December 2018 which took effect on September 1, 2017 and December 29, 2018, respectively, and the 2021 Implementing Regulations have not set forth any details regarding the preferential tax treatments that may be enjoyed by a for-profit private school, including any restriction on tax exemption amount or preferential tax rate.

With a view to understanding the local legislation development in Shanxi Province as our school sponsors have not made formal application to register our College as a for-profit private school, with the assistance of our PRC Legal Advisors we consulted the Taxation Bureau of Xiaodian District, Taiyuan City, being the competent authority as advised by our PRC Legal Advisors to confirm the matters relating to taxation issues relevant to us. In accordance with such interview with the competent authority which confirmed, among other things, that our College was exempt from PRC enterprise income tax and value-added tax during the Track Record Period. However, relevant government authorities may promulgate detailed rules and regulations regarding the preferential tax treatments that may be enjoyed by a for-profit private school in the future. There is a possibility that such rules and regulations will reduce or eliminate the preferential tax treatments currently enjoyed by our College. The unavailability of any favorable tax treatments currently available to our College at the same level as historically would cause our effective tax rate to increase, which would increase our tax expenses and reduce our net profit.

Although, we were not required to pay PRC enterprise income tax in respect of income we recorded from the provision of formal educational services during the Track Record Period, following the execution of the Contractual Arrangements, Shanxi WFOE is currently subject to PRC enterprise income tax rate of 25% and value-added tax of 3% in respect of the service fees it receives from our PRC Affiliated Entities. Such tax rates are subject to change and may have a significant impact on our profitability.

Our continuing success depends on our ability to attract and retain our senior management and other qualified personnel.

We depend on our senior management and school administrators for the smooth operation of our College and execution of our business strategies. The continuing services of our executive Directors, senior management team and the principal of our College are crucial to our future success.

If one or more of our executive Directors, senior management and other key personnel are unable or unwilling to continue their employment with us, we may not be able to replace them with qualified personnel in a timely manner, or at all, and our business may be disrupted and our results of operations and financial condition may be materially and adversely affected. Competition for qualified and experienced teachers in the private education industry in China and in particular, in Shanxi Province, is intense, and the pool of qualified candidates is very limited. We may not be able to retain qualified personnel in the future. In the event we lose services, or if any of our key teaching personnel joins our competitors or forms a new competing company, we may not be able to retain our teachers, students and other professionals. As a result, our business, results of operations and financial condition could be materially and adversely affected.

We maintain limited insurance coverage.

We maintain various insurance policies to safeguard against risks and unexpected events, such as school liability insurance and student safety insurance. However, our insurance coverage is limited in terms of amount, scope and benefits. In addition, we do not maintain business interruption insurance, product liability insurance or key-man life insurance. See "Business — Insurance" for more information. We are exposed to risks including, but not limited to, accidents or injuries in our College, fires, explosions or other accidents for which we do not currently maintain insurance, loss of key management and personnel, business interruption, natural disasters, terrorist attacks and social instability or any other events beyond our control. Any business disruption, litigation or legal proceedings or natural disasters, such as epidemics, pandemics or earthquakes, or other events beyond our control, could result in substantial costs and the diversion of our resources. Our business, financial condition and results of operations may be materially and adversely affected as a result.

Accidents or injuries suffered by our students, our employees or other personnel on our College premises may adversely affect our reputation and subject us to liabilities.

We could be held liable for the accidents or injuries or other harm to students or other people at our College, including those caused by or otherwise arising in connection with the facilities or employees of our College. We could also face claims alleging that we were negligent, or that we provided inadequate maintenance to our College facilities or fail to properly supervise our employees and therefore may be held liable for accidents, incidents or injuries suffered by our students or other people at our College. In addition, if any of our students or teachers or anyone else on our College premises commits any act of violence, we could face allegations that we failed to provide adequate security or were otherwise responsible for his or her actions. Our College may be perceived to be unsafe, which may discourage prospective students from applying to or attending our College. A liability claim against us or any of our employees could adversely affect our reputation and student enrollment and retention. Even if unsuccessful, such a claim could create unfavorable publicity, causing us to incur substantial expenses and diverting the time and attention of our management, all of which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We outsource the meal catering services for our College to an Independent Third Party and, as a result, we cannot guarantee that the quality and price of the food services they provide are always the best available and we may be exposed to potential liability if food services quality does not comply with relevant standards.

During the Track Record Period, our College outsourced all the meal catering services, including seven canteens on our campuses to an Independent Third Party. Our College usually enters into five-year co-operation agreements with this Independent Third Party. The Independent Third Party enters into separate service contracts with various third-party catering providers and suppliers, which we are not a contracting party. Our College monitors the quality of the services provided by the Independent Third Party strictly. We had food safety management personnel to regularly conduct inspections of the daily operation of the canteens at our College. However, we cannot assure you that we will be able to monitor the food preparation process to ensure its quality or require the Independent Third Party to adhere to our food quality standards. In the event poor food quality results in any serious health violations, such as mass food poisoning, results in harm to any of our students, our business, financial condition and reputation could be materially and adversely affected.

From time to time, our business partners and suppliers may have disputes with us or file claims of breach of contract against us, which may harm our reputation and have a material and adverse effect on our business, financial condition and results of operations.

We cooperate with a large number of enterprises and institutions in a variety of college-industry collaboration programs, including joint curriculum design, student cultivation and practical training. In addition, we collaborate with a university internationally, namely Cardiff Metropolitan University. We also enter into contracts with logistics service providers, construction project contractors, maintenance and renovation contractors, heating service providers, booksellers and teaching equipment suppliers. We cannot assure you that disputes will not arise from these collaborations and contracts or that our business partners and suppliers will not bring claims against us. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. Further, we cannot assure you that we will be able to defend against such claims successfully. If any such claims against us were ultimately successful, we could be required to pay damages, which could materially and adversely affect our business, financial condition and results of operations.

The appraisal value of our properties may be different from their actual realizable value and are subject to uncertainty or change.

The property valuation report set out in Appendix III to this document with respect to the appraised value of our properties are based on various assumptions, which are subjective and uncertain in nature. The assumptions that Vincorn Consulting and Appraisal Limited used in the property valuation report include: (i) the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests; (ii) no allowances have been made for any charges, mortgages or amounts owing on the property interests, nor for any expenses or taxations which may be incurred in effecting a sale; (iii) the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect the values of the property interests; and (iv) the owner has free and uninterrupted rights to use the property interests for the whole of the unexpired term of the land use rights. One or more of the aforementioned assumptions may be inaccurate. As a result, the appraised value of our properties may not be its actual realizable value or a forecast of their realizable value. In addition, unexpected changes to our properties and to the national and local economic conditions may affect the value of these properties. Therefore, you should not place undue reliance on such appraised value attributable to these properties by Vincorn Consulting and Appraisal Limited.

The construction of new buildings on our campus and addition of property, plant and equipment in connection with our expansion strategies may result in an increase in depreciation costs which may materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we built significant additional facilities to improve our teaching facilities, provide a better learning environment for our students and increase our College's student capacity. Our annual depreciation costs increased from RMB30.1 million for the year ended August 31, 2018 to RMB36.6 million for the year ended August 31, 2020. Our depreciation costs decreased from RMB12.4 million for the four months ended December 31, 2019 to RMB12.0 million for the four months ended December 31, 2020. In connection with our expansion strategy, we plan to initiate the construction of Phase IV of our Beige campus which will include the construction of a teaching building, a library and a gymnasium. We expect construction for this project to begin in the third quarter of 2021 and to be completed by the end of the first quarter of 2024. See "Business — Our Business Strategies — Increase our College's capacity and student body and improve the teaching and living environment by building new facilities" for details.

In addition, we plan to expand our operation abroad by establishing a higher education institution in California, the United States. See "History and Corporate Structure — School to be Established — New school in California" for details. The establishment of such US-based higher education institution may cause us to incur additional depreciation costs in relation to the additional property, plant and equipment we will obtain.

Such increases in our depreciation costs could result in a decrease in our profit, and may materially and adversely affect our business, financial condition and results of operations.

If we fail to protect our intellectual property rights or prevent the loss or misappropriation of our intellectual property rights, we may lose our competitive position and our brand, reputation and operations may be materially and adversely affected.

Unauthorized use of any of our intellectual property may occur and consequently affect our business and reputation in a negative way. We rely on a combination of patents, copyrights, trademarks and trade secrets laws to protect our intellectual property rights. However, using our best efforts, third parties may obtain and use our intellectual property without due authorization and infringe our rights. The practice of intellectual property rights enforcement action by Chinese regulatory authorities is in its early stage of development and is subject to significant uncertainty. We may also need to resort to litigation and other legal proceedings to enforce our intellectual property rights. This could result in substantial cost, and require our management personnel to divert a substantial amount of their time and energy to handle these situations. In addition, our business could be disrupted by any such infringement. Despite our efforts, there is no assurance that we will be able to enforce our intellectual property rights effectively or otherwise prevent third parties from unauthorized use. Failure to adequately protect our intellectual property could have a material and adverse effect on our business, financial condition and results of operations.

We may face disputes from time to time relating to the intellectual property rights.

As of the Latest Practicable Date, we had not encountered any material claims for intellectual property infringement. However, we cannot assure you that materials and other educational content used in our College and programs do not or will not infringe intellectual property rights of third parties, and there is no guarantee in the future that third parties will not claim that we have infringed on their proprietary rights.

Although we plan to defend ourselves vigorously in any such litigation or legal proceedings, there is no assurance that we will prevail in these matters. Participation in such litigation and legal proceedings may also cause us to incur substantial expenses and divert the time and attention of our management. We may be required to pay damages or incur settlement expenses. In addition, in case we are required to pay any royalties or enter into any licensing agreements with the owners of intellectual property rights, we may find that the terms are not commercially acceptable and we may finally lose the ability to use the related content or materials, which in turn could materially affect our educational programs. Any similar claim against us, even without any merit, could also hurt our reputation and brand image. Any such event could have a material and adverse effect on our business, financial condition and results of operations.

Failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in the PRC are required to participate in various employee benefit plans including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund, and contribute to the plans in amounts equal to certain percentages of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their businesses. During the Track Record Period, we did not pay housing provident fund in full for the employees of our College as the payment basis of housing provident fund of such employees were not determined with reference to the actual salary level of such employees as prescribed by the applicable PRC laws and regulations. The aggregate amount of such unpaid housing provident fund contributions was RMB2.9 million, RMB2.5 million, RMB1.9 million and RMB1.5 million as of August 31, 2018, 2019 and 2020 and December 31, 2020, respectively. As advised by our PRC Legal Advisors, pursuant to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), if we do not pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the payment outstanding within a stipulated period; if the payment is not made within the stipulated period, an application may be made to the PRC courts for compulsory enforcement. In addition, until August 2020, we did not make full contributions to social insurance scheme for the employees of our College as the payment basis of social insurance contribution for such employees before August 2020 were not determined with reference to the actual salary level as prescribed by the applicable PRC laws and regulations. As of August 31, 2018, 2019 and 2020 and December 31, 2020, the aggregate amount of unpaid social insurance contribution was RMB2.8 million, RMB2.0 million, RMB2.3 million and RMB2.7 million, respectively. Please refer to the section headed "Business — Legal Proceedings and Non-compliance" in this document for further details. We cannot assure you that the relevant local government authorities will not require us to pay the outstanding amount within a specified time limit or impose late fees or fines on us, which may materially and adversely affect our financial condition and results of operations.

The assets held by our College may not be pledged as collateral in connection with securing bank loans and other borrowings, which reduces our College's ability to obtain financing to fund its operations.

On May 28, 2020, the National People's Congress of the PRC enacted the Civil Code of the PRC (《中華人民共和國民法典》) (the "**Civil Code**"), with an effective date of January 1, 2021. The Civil Code provides that non-profit legal persons established for public welfare such as schools, kindergartens and medical institutions shall not mortgage their educational facilities, health care facilities and other public welfare facilities. The buildings that our College owns and occupies may be considered "public welfare facilities" according to the Law for Promoting Private Education (《民辦教育促進法》), which provides that private education is considered in the nature of "public welfare" in the PRC. It may be interpreted that the Civil Code limits the prohibition on property mortgage only to non-profit private schools. However, substantial uncertainties still exist regarding the interpretation and application of the Civil Code after its effectiveness. If relevant PRC government authorities take a different view, these properties may not be allowed to be pledged as collateral when our College enters into loan agreements with banks. In such cases, our College' s ability to obtain financing to fund its operations will be limited. Even if collateral is meant to be created based on such properties under any loan agreement to be entered into between our College and the potential lender, such pledge may not be valid or enforceable under the laws and regulations of the PRC, as a result of which, our College' s ability to obtain financing to fund their operation is limited.

Unauthorized disclosures or manipulation of student, teacher and other sensitive personal data, whether through breach of our network security or otherwise, could expose us to litigation or could adversely affect our reputation.

Maintaining our network security and internal controls over access rights is of critical importance because proprietary and confidential student and teacher information, such as names, addresses, and other personal information, is primarily stored in our computer database located at our College, which can only be accessed by the staff from the office of student affairs of our College. If our security measures are breached as a result of actions by third-parties, employee error, malfeasance or otherwise, third parties may receive or be able to access student records, which could subject us to liabilities, interrupt our business and adversely impact our reputation. In addition, we run the risk that our employees or third parties could misappropriate or illegally disclose confidential educational information in our possession. As a result, we may be required to expend significant resources to provide additional protection from the threat of these security breaches or to alleviate problems caused by these breaches.

We face risks related to natural disasters, health epidemics or terrorist attacks in China.

Our business could be materially and adversely affected by natural disasters, such as earthquakes, floods, landslides, outbreaks of health epidemics such as avian influenza, severe acute respiratory syndrome, or SARS, COVID-19, swine flu or H1N1 virus and Influenza A virus, such as H5N1 subtype and H5N2 subtype flu viruses, as well as terrorist attacks, other acts of violence or war or social instability in the region in which we operate or those generally affecting China. In particular, all of our students are boarding students and our College provides on-campus accommodations to our teacher and staff, the boarding environment makes our students, teachers and staff exceptionally vulnerable to epidemics or pandemics, which may make it more difficult for us to take preventive measures if an epidemic or pandemic were to occur. These events could also substantially impact our industry and, in the recent past caused a delay to the opening of the school campuses for the spring semester of the 2019/2020 school year for our College. In addition, any of these events may cause material disruptions to our operations, such as temporary closure of our school campuses, which in turn may materially and adversely affect our business, financial condition and results of operations. If any of these events occur, our College and facilities may suffer damages or be required to temporarily or permanently close and our business operations may be suspended or terminated. Our students, teachers and staff may also be negatively affected by such events. For instance, our operations could be further disrupted if any of our students, teachers and staff were suspected of contacting a contagious disease, since this could require us to quarantine some or all of our employees or students and disinfect the facilities used in our business operations. Any of these could adversely affect the PRC economy and demographics of the affected region, which could cause significant declines in the number of our students applying to or enrolled in our College. If this takes place, our business, financial condition and results of operations could be materially and adversely affected.

The unavailability of any favorable regulatory treatment, particularly government grants and subsidies could adversely affect our business, financial condition and results of operations.

We enjoy certain favorable regulatory treatment, particularly government grants and subsidies, which are offered primarily for the purpose of promoting the development of private higher education institutions. For the three years ended August 31, 2018, 2019 and 2020 and the four months ended December 31, 2020, we recorded government grants related to income in the total amount of RMB0.7 million, RMB0.5 million, nil and RMB1.0 million, respectively. However, it is in the relevant government authorities' sole and absolute discretion, subject to relevant PRC laws, to determine whether and when to provide government grants and subsidies to us, if at all. We cannot assure you that we will be able to receive government grants and subsidies in the future. Furthermore, any unexpected changes in the PRC laws may result in uncertainty in the availability of government grants and subsidies or any other favorable treatment to us. If we are unable to obtain or maintain government grants and subsidies or any other favorable treatment in the future in the same amount or at all, our business operations, results of operations, and cash flows could be adversely affected.

Our results of operations, financial condition and prospects may be adversely affected by our financial assets at fair value through profit or loss due to the uncertainty of accounting estimates in the fair value measurement using of significant observable inputs in the valuation technique.

During the Track Record Period, we invested in unlisted investments, which mainly included financial products issued by licensed banks in the PRC. As at August 31, 2018, 2019 and 2020 and December 31, 2020, our financial assets at fair value through profit or loss amounted to nil, RMB30.1 million, RMB311.7 million and RMB400.0 million, respectively.

The financial products are measured at fair value with significant observable inputs used in the valuation techniques and the changes in their fair value are recorded as other income in our consolidated statements of profit or loss, and therefore directly affects our profit for the year and our results of operations.

We did not incur any fair value losses for financial assets at fair value through profit or loss during the Track Record Period. However, we cannot assure you that we will not incur any such fair value losses in the future. If we incur such fair value losses, our results of operations, financial condition and prospects may be adversely affected.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

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

We entered into a series of agreements in which our wholly-owned subsidiary, Shanxi WFOE, receives economic benefits from our PRC Affiliated Entities pursuant to relevant clauses under the agreements. See "Contractual Arrangements" in this document for more information.

Foreign investment in the education industry in the PRC is extensively regulated and subject to numerous restrictions. Under the Negative List, higher education is a restricted industry for foreign investors, and foreign investors are only allowed to invest in the higher education industry in cooperative ways and the domestic party shall play a dominant role in the cooperation.

Furthermore, under the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》), which was issued by the MOE on June 18, 2012, the foreign portion of the total investment in a Sino-foreign joint venture educational institution should be below 50%. According to relevant regulations, the foreign investors invested in higher education must be foreign education institutions, with relevant qualifications and experience. See "Regulatory Overview" in this document for more information. Although foreign investment in the higher education is not prohibited, we are still ineligible to operate higher education institution by the way of share control. See "Contractual Arrangements — Background of the Contractual Arrangements" in this document for further information. Accordingly, we have been and are expected to continue to be dependent on the Contractual Arrangements to operate our education business.

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

- revoking the business and operating licenses of our PRC Affiliated Entities;
- discontinuing or restricting the operations of any related-party transactions among our PRC Affiliated Entities;
- imposing fines or other requirements with which we or our PRC Affiliated Entities may not be able to comply;
- requiring us to restructure our operations in such a way as to compel us to establish new entities, re-apply for the necessary licenses or relocate our business staff and assets;
- imposing additional conditions or requirements with which we may not be able to comply; or

- restricting the [**REDACTED**] from our additional [**REDACTED**] or financing to finance our business and operations in China.

If any of the above penalties are imposed on us, our business, financial condition and results of operations may be materially and adversely affected.

Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

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

Conducting operations through contractual arrangements has been adopted by many PRC-based companies, including us, to obtain and maintain required or necessary licenses and permits in the industries that foreign investment is currently restricted or prohibited in China. While the Foreign Investment Law does not explicitly stipulate that contractual arrangements is a form of foreign investment, it is possible that contractual arrangements will be recognized as foreign investment under the limb of "investment in any other manners stipulated under laws, administrative regulations or provisions prescribed by the State Council" or the State Council may prescribe new laws, administration regulations or provisions to provide for the same. Whether the Contractual Arrangements will be found or deemed to be in violation of the foreign investment access requirements and how the Contractual Arrangements will be handled in such scenarios are uncertain.

In the extreme case scenario, we may be required to unwind the Contractual Arrangements and/or dispose of our PRC Affiliated Entities, which could have a material and adverse effect on our business, financial condition and result of operations. If, in the Stock Exchange's view, our Company no longer has a sustainable business after the aforementioned unwinding of the Contractual Arrangements or disposal or such measures are not complied with, the Stock Exchange may take enforcement actions against us which may have a material adverse effect on the [**REDACTED**] of our Shares or even result in [**REDACTED**] of our Company. For details of the Foreign Investment Law and the Negative List and its potential impact on our Company, please see "Contractual Arrangements — Development in the PRC Legislation on Foreign Investment" in this document.

Therefore, there are significant uncertainties in relation to the interpretation and implementation of the Foreign Investment Law and its impact to our Contractual Arrangements and our business, financial condition and results of operations.

The Contractual Arrangements may not be as effective in providing control over our PRC Affiliated Entities as direct ownership.

We have relied and expect to continue to rely on the Contractual Arrangements to operate our education business in China. For a description of these Contractual Arrangements, see "Contractual Arrangements" in this document for details. Relying on these Contractual Arrangements may not be as effective in providing us with control over our PRC Affiliated Entities as equity ownership. If we had direct ownership of the school sponsor's interest and/or the equity interest in our PRC Affiliated Entities, we would be able to exercise our rights as a direct or indirect holder of the school sponsor's interest and/or the equity interest in our PRC Affiliated Entities to effect changes in the board of directors of our PRC Affiliated Entities, which in turn could change the management. However, as these Contractual Arrangements stand now, if our PRC Affiliated Entities or the Registered Shareholders breach or fail to perform their respective obligations under these Contractual Arrangements, we cannot exercise the school sponsor's rights and shareholder's rights to direct such corporate action as the direct ownership would otherwise entail.

If the parties under such Contractual Arrangements refuse to carry out our directions in relation to everyday business operations, we will be unable to maintain effective control over the operations of our PRC Affiliated Entities. If we were to lose effective control over our PRC Affiliated Entities, certain negative consequences would result, including our inability to consolidate the financial results of our PRC Affiliated Entities with our financial results. Given that revenue from our PRC Affiliated Entities constitute all of the total revenue in our consolidated financial statements during the Track Record Period, our financial position would be materially and adversely impacted if we were to lose effective control over our PRC Affiliated Entities. In addition, losing effective control over our PRC Affiliated Entities may negatively impact our operational efficiency and brand image. Further, losing effective control over our PRC Affiliated Entities may impair our access to their cash flow from operations, which may reduce our liquidity.

The owners of our PRC Affiliated Entities may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Our control over our PRC Affiliated Entities is based upon the Contractual Arrangements with our PRC Affiliated Entities, the Registered Shareholders and the directors of our College as appointed by our School Sponsor. Our School Sponsor is the direct holder of our school sponsor's interest in our College. The Registered Shareholders are the shareholders of Shanxi Tongcai and also beneficial owners of our Company. Our School Sponsor or the Registered Shareholders may potentially have conflicts of interest with us and breach their contracts or undertakings with us if it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us on the one hand, and our PRC Affiliated Entities on the other hand, the Registered Shareholders will act completely in our interest or that the conflicts of interest will be resolved in our favor. In the event that such conflict of interest cannot be resolved in our favor, we would have to rely on legal proceedings which could result in disruption to our business and we are subject to any uncertainty as to the outcome of such legal proceedings. If we are unable to resolve such conflicts, including if our PRC Affiliated Entities or the Registered Shareholders breached their contracts or undertakings with us and as a result or otherwise we are subject to claims from third parties, our business, financial condition and operations could be materially and adversely affected.

We may not be able to meet the Qualification Requirement.

Pursuant to the Negative List and the Sino-Foreign Regulation, the foreign investor in a Sino-foreign joint venture higher education, institution must be a foreign educational institution with relevant qualification that provides high quality education (the "**Qualification Requirement**"), holds less than 50% of the capital investment in the Sino-foreign joint venture private school ("**Foreign Ownership Restriction**") and the domestic party shall play a dominant role ("**Foreign Control Restriction**"). According to our consultation with the Department of Education of Shanxi Province, the Department of Education of Shanxi Province will not approve our College or the schools to be newly established or invested by us to be converted into Sino-Foreign Joint Venture Private Schools at this stage. As of the Latest Practicable Date, while we do not meet the Qualification Requirement as we have no experience in operating schools outside of the PRC, we have taken concrete steps to comply with the Qualification Requirement. See "Contractual Arrangements — Background of the Contractual Arrangements — Plan to Comply with the Qualification Requirement" for further details on our plans to comply with the Qualification Requirement.

We cannot assure you that we will meet the Qualification Requirement in the future and the plan we have adopted will be sufficient to satisfy the Qualification Requirement. If the Foreign Ownership Restriction and Foreign Control Restriction are lifted, we may be unable to unwind the Contractual Arrangements by acquiring the school sponsor's interest in our College before we are in a position to comply with the Qualification Requirement. If we otherwise attempt to unwind the Contractual Arrangements by acquiring the school sponsor's interest in our College before we satisfy the Qualification Requirement, we may be considered by the regulatory authorities as ineligible for operating schools and forced to cease operation of our College, which could have a material adverse effect on our business, financial condition and results of operations.

Our exercise of the option to acquire the school sponsor's interest in our College and/or equity interest in our School Sponsor (as the case may be) may be subject to certain limitations and we may incur substantial costs and expend significant resources to enforce the Contractual Arrangements.

We may incur substantial cost on our part to exercise the option to acquire the school sponsor's interests in our College and/or equity interest in our School Sponsor. Pursuant to the Exclusive Call Option Agreement, Shanxi WFOE or its designated purchaser has the exclusive right to purchase all or part of the school sponsor's interest in our College and equity interest of in our School Sponsor at the lowest price permitted under the PRC laws and regulations. In the event that Shanxi WFOE or its designated purchaser acquires the school sponsor's interests or equity interest and the relevant PRC authorities determine that the purchase price for acquiring the school sponsor's interest and/or equity interest is below market value, Shanxi WFOE or its designated purchaser may be required to pay enterprise income tax with reference to the market value such that the amount of tax may be substantial, which could materially and adversely affect our business, financial condition and results of operations.

The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional tax may be imposed, which may materially and adversely affect our results of operation and value of your investment.

Under PRC laws and regulations, arrangements and transactions among related parties may be subject to audit or challenge by the PRC tax authorities. We could face material and adverse tax consequences if the PRC tax authorities determine that the Business Cooperation Agreement we have with our PRC Affiliated Entities does not represent an arm's length price and adjust any of those entities' income in the form of a transfer pricing adjustment. A transfer pricing adjustment could increase our tax liabilities. In addition, PRC tax authorities may have reason to believe that Shanxi WFOE or PRC Affiliated Entities are dodging their tax obligations, and we may not be able to rectify such incident within the limited timeline required by PRC tax authorities. As a result, the PRC tax authorities may impose late payment fees and other penalties on us for under-paid taxes, which could materially and adversely affect our business, financial condition and results of operations.

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

The Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with the arbitration rules of the China International Economic and Trade Arbitration Commission in Beijing, the PRC. The Contractual Arrangements contain provisions to the effect that the arbitral body may award remedies over the school sponsor's interest in our College, the equity interests in our School Sponsor and/or property interest and assets of our PRC Affiliated Entities, injunctive relief and/or winding up of our PRC Affiliated Entities.

In addition, the Contractual Arrangements contain provisions to the effect that courts in Hong Kong and the Cayman Islands are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. However, we have been advised by our PRC Legal Advisors that the above-mentioned provisions contained in the Contractual Arrangements may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final winding-up order to preserve the assets of or any school sponsor's interest or equity interest in our PRC Affiliated Entities in case of disputes. Therefore, such remedies may not be available to us, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or school sponsor's interest or equity interest in our PRC Affiliated Entities in favor of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures.

Our PRC Legal Advisors are also of the view that, even though the Contractual Arrangements provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favor of an aggrieved party) may still not be recognized or enforced by PRC courts. As a result, in the event that any of our PRC Affiliated Entities or the Registered Shareholders breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over our PRC Affiliated Entities and conduct our education business could be materially and adversely affected. See "Contractual Arrangements — Dispute Resolution" in this document for details regarding the enforceability of the dispute resolution provisions in the Contractual Arrangements as opined by our PRC Legal Advisors.

We rely on payments from Shanxi WFOE to pay dividends and other cash distributions to our Shareholders.

Our Company is a holding company and rely principally on dividends paid by our subsidiary in China for our cash needs, including paying dividends and other cash distributions to our Shareholders, servicing any debt we may incur and paying our operating expenses. Shanxi WFOE's income in turn depends on the service fees paid by our PRC Affiliated Entities. Current PRC laws and regulations permit our subsidiary in China to pay dividends to us only out of its accumulated profits, if any, determined in accordance with PRC GAAP and regulations. Under the applicable requirements of PRC laws and regulations, Shanxi WFOE may only distribute after-tax dividends after deduction of costs for school operations, donations received, government subsidies (if any), the reserved development fund and other expenses as required by the regulations. These reserves are not distributable as cash dividends.

Pursuant to the 2016 Decision, sponsors of private school may choose to establish as non-profit or for-profit private schools and will no longer be required to indicate whether they require reasonable returns or not. Sponsors of for-profit private schools are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors pursuant to the PRC Company Law and other relevant laws and regulations, whereas sponsors of non-profit private schools are not entitled to any distribution of profits or revenue from the non-profit schools they operate and any operation surplus of the schools shall be used for the operation of the schools.

As a holding company, our ability to pay dividends and other cash distributions to our Shareholders depends solely on our ability to receive dividends and other distributions from Shanxi WFOE, which in turn depends on the service fees paid to Shanxi WFOE from our PRC Affiliated Entities. Based on our consultations with the Department of Education of Shanxi Province and Taiyuan Xiaodian District Tax Bureau, State Administration of Taxation, which are the competent authorities to confirm such matters as advised by our PRC Legal Advisors, (i) Shanxi WFOE's right to receive service fees from our PRC Affiliated Entities under the Contractual Arrangements do not contravene the relevant laws and regulations in the PRC; and (ii) payment of service fees under the Contractual Arrangements would not be deemed as paying reasonable returns or distributing profits to the School Sponsor of our College and would not be deemed as misappropriation of the property of the school or illegally obtaining benefits from the school. However, if the relevant PRC government authorities change their policy or take a different view in the future, we cannot assure you there is no risk for any or all of the service fees that have been paid by our PRC Affiliated Entities to Shanxi WFOE, even retrospectively, be confiscated if such service fees are being regarded as operating profit from school operations in violation of PRC laws and regulations. The relevant PRC government authorities may also seek to stop student enrollment at our College or, in a more extreme situation, revoke the operation permits of our College. As a result, our business operations, financial condition and results of operations would be materially and adversely affected.

Our College may be subject to limitations on its ability to operate private education or make payments to related parties.

Pursuant to the 2016 Decision, school sponsors of a private school which provides education services other than compulsory education may choose for the school to be a for-profit private school or a non-profit private school. School sponsors of a for-profit private school are allowed to receive operating profits while school sponsors of a non-profit private school are not allowed to do so. According to the 2016 Decision, private schools will no longer be categorized as schools the school sponsors of which require reasonable returns and schools the school sponsors of which do not require reasonable returns. As the detailed rules and regulations regarding the conversion of existing private schools into for-profit or non-profit schools have not been promulgated by local governmental authorities, there are uncertainties involved in interpreting and implementing the 2016 Decision with respect to various aspects of the operations of a private school. Therefore, we cannot assure that the detailed rules and regulations to be promulgated by local governmental authorities would not impose restrictions on our ability to operate private schools or to make payments to Shanxi WFOE under the Contractual Arrangements, which may have a material adverse impact on the Group's business operations and prospects.

If any of our PRC Affiliated Entities becomes subject to winding up or liquidation proceedings, we may lose the ability to enjoy certain important assets, which could negatively impact our business and materially and adversely affect our ability to generate revenue.

We currently conduct our operations in China through Contractual Arrangements with our PRC Affiliated Entities and the Registered Shareholders. As part of these arrangements, substantially all of our education-related assets that are important to the operation of our business are held by our PRC Affiliated Entities. If any of these PRC Affiliated Entities is wound up, and all or part of their assets become subject to liens or rights of third-party creditors or are distributed to other persons of higher priority than the Registered Shareholders in accordance with the applicable PRC laws and regulations and articles of association of our PRC Affiliated Entities, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our PRC Affiliated Entities undergoes a voluntary or involuntary liquidation proceeding, our PRC Affiliated Entities may be required to distribute their assets to other persons of higher priority than the Registered Shareholders, or the owner or unrelated third-party creditors of our PRC Affiliated Entities may claim rights relating to some or all of these assets, which would hinder our ability to operate our business and could materially and adversely affect our business, our ability to generate revenue and the [**REDACTED**] of our Shares. Pursuant to the Contractual Arrangements, in the event of the dissolution or liquidation of our PRC Affiliated Entities, Shanxi WFOE and/or its designated person shall have the right to exercise all of the school sponsor's rights on behalf of our School Sponsors and shareholder's rights on our School Sponsor and Shanxi WFOE shall instruct all of our PRC Affiliated Entities to transfer assets directly to Shanxi WFOE or other persons designated by our Company before such dissolution or liquidation, however, we may not be able to exercise our rights in a timely manner and our business, financial condition and operations may be materially and adversely affected.

RISKS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and growth prospects.

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. Before the adoption of its reform and opening up policies in 1978, the PRC was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and government structure. For example, the PRC government has implemented economic reform and measures emphasizing the utilization of market forces in the development of the PRC economy in the past four decades. These reforms have resulted in significant economic growth and social prospects. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

We cannot predict whether the resulting changes will have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, allocation of natural and other resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. Stricter credit or lending policies in the PRC may affect our customers' consumer credit or consumer banking business, and may also affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten credit or lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

Demand for our services and our business, financial condition and results of operations may be materially and adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation; and
- changes in the rate or method of taxation.

These factors are affected by a number of variables which are beyond our control.

A severe or prolonged downturn in the Chinese or global economy could materially and adversely affect our business and financial condition.

COVID-19 has had a severe and negative impact on the Chinese and the global economies. Whether this will lead to a prolonged downturn in the economy is still unknown. Even before the outbreak of COVID-19, the global macro-economic environment was facing numerous challenges. The growth rate of the Chinese economy had already been slowing since 2010. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies which had been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China, even before 2020. Unrest, terrorist threats and the potential for war in the Middle East and elsewhere may increase market volatility across the globe. There have also been concerns about the relationship between China and other countries, including the surrounding Asian countries, which may potentially have economic effects. In particular, there is significant uncertainty about the future relationship between the United States and China with respect to trade policies, treaties, government regulations and tariffs. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any severe or prolonged slowdown in the global or Chinese economy may materially and adversely affect our business, results of operations and financial condition.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the [REDACTED] of the [REDACTED] to make loans or additional capital contributions to our PRC Affiliated Entities; which could materially and adversely affect our liquidity and our ability to fund and expand our business operations.

In utilizing the [**REDACTED**] of the [**REDACTED**] in the manner described in the section "Future Plans and [**REDACTED**]" in this document as an offshore holding company of our PRC subsidiary, we may (i) make loans to our PRC subsidiary or our PRC Affiliated Entities, (ii) make additional capital contributions to our PRC subsidiary, (iii) establish new subsidiaries and make additional new capital contributions to these new PRC subsidiaries, and (iv) acquire offshore entities with business operations in China in an offshore transaction. However, most of these uses are subject to PRC regulations and approvals.

For example:

- loans by us to Shanxi WFOE cannot exceed statutory limits and must be registered with SAFE, or its local counterparts;
- loans by us to our PRC Affiliated Entities, over a certain threshold, must be approved by the relevant government authorities and must also be registered with the SAFE or its local counterparts; and
- capital contribution to our College must be approved by the MOE and the Ministry of Civil Affairs or their respective local counterparts.

On March 30, 2015, SAFE promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**SAFE Circular 19**"). SAFE Circular 19 reforms the administration of the settlement of the foreign exchange capital of foreign-invested enterprises by allowing foreign-invested enterprises to settle their foreign exchange capital at their discretion, but it continues to prohibit foreign-invested enterprises from using RMB funds converted from their foreign exchange capital for expenditures beyond their business scope. On June 9, 2016, SAFE promulgated the Circular on Reforming and Standardizing the Administrative Provisions over Capital Account Foreign Exchange (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the "**SAFE Circular 16**"). SAFE Circular 16 continues to prohibit foreign-invested enterprises from using the RMB funds converted from its foreign exchange capital for expenditures beyond their business scope, investment and financing (except for securities investment or non-guaranteed bank products), providing loans to non-affiliated enterprises or constructing or purchasing real estate other than for self-use. On October 23, 2019, SAFE issued the Notice of SAFE on Further Facilitating Cross-border Trade and Investment (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), which, among other things, expanded the use of foreign exchange capital to domestic equity investment area. Non-investment foreign-funded enterprises are allowed to lawfully make domestic equity investments by using their capital on the premise of no violation of prevailing special administrative measures for access of foreign investments (negative list) and the authenticity and compliance with the regulations of domestic investment projects. SAFE Circular 19 and SAFE Circular 16 and other relevant foreign exchange rules may significantly limit our ability to transfer and use in China the [**REDACTED**] from this [**REDACTED**], which may adversely affect our business, financial conditions and results of operations.

We expect that PRC laws and regulations may continue to limit our use of [**REDACTED**] from the [**REDACTED**] or from other financing sources. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our entities in China. If we fail to receive such registrations or approvals, our ability to use the [**REDACTED**] from the [**REDACTED**] and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

Failure by the Shareholders or beneficial owners who are Chinese residents to make any required applications and filings pursuant to regulations relating to offshore investment activities by Chinese residents may prevent us from distributing profits and could expose us and our Chinese resident Shareholders to liability under PRC Laws.

The Circular of the SAFE on Foreign Exchange Administration of Overseas Investment and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "**Circular No. 37**"), which was promulgated and became effective on 4 July 2014, requires a domestic institution or individual resident (a "**Domestic Resident**") to file a "Registration Form of Overseas Investments Contributed by Domestic Individual Residents" and register with the local SAFE branch before he/she contributes assets or capital to an offshore special purpose vehicle established for the purpose of offshore investment and financing, utilizing assets or interests (onshore or offshore) (an "**Offshore SPV**") legally held by the Domestic Resident. Following the initial registration, a Domestic Resident is also required to register with the local SAFE branch any major change in respect of an Offshore SPV, including, among other things, any major change of the Offshore SPV's Domestic Resident shareholder, name of the Offshore SPV, term of operation, or any increase or reduction of the Offshore SPV's registered capital, share transfer or swap, and merger or division. Failure to comply with the registration procedures of Circular No. 37 may result in penalties, including the imposition of restrictions on the ability of the Offshore SPV's Chinese subsidiary to distribute dividends to its overseas parent. Pursuant to Circular of the SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "**Circular No. 13**"), which was promulgated on February 13, 2015 and implemented on June 1, 2015, the foreign exchange registration for establishing or taking control of an Offshore SPV by Domestic Residents are required to be conducted with a qualified bank, instead of the local SAFE branch.

As of the Latest Practicable Date, all of our Domestic Resident beneficial owners (i.e. Mr. Niu Sanping and Mr. Niu Jian) have completed the registration with qualified banks in accordance with Circular No. 37 and Circular No. 13. However, we cannot guarantee you that all of our Domestic Resident Beneficial Owners will comply with Circular No. 37 and Circular No. 13 registration requirements, including updating their registration pursuant to relevant requirements or registration by future beneficial owners who are domestic residents, which is out of our control. Any failure by our domestic resident beneficial owners to register with qualified banks and comply with registration requirements pursuant to Circular No. 37 and Circular No. 13 or update their filing, or the failure of future beneficial owners who are domestic residents to comply with the registration requirements may result in penalties and the prohibition of payments to offshore parents from capital reductions, share transfers or liquidations of our Chinese subsidiaries and could materially adversely affect our ownership structure, acquisition strategy, business operations and ability to make dividend payments to our Shareholders.

PRC governmental control on the convertibility of Renminbi may affect the value of your investment.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. The majority of our income is received in Renminbi and shortages in the availability of foreign currencies may restrict our ability to pay dividends or other payments, or otherwise satisfy our foreign currency denominated obligations, if any. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE, by complying with certain legal requirements. Approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, impose restrictions on access to foreign currencies for current account transactions and if this occurs in the future, we may not be able to pay dividends in foreign currencies to our Shareholders.

We face foreign exchange risk, and fluctuations in exchange rates could have an adverse effect on our business and investors' investments.

The value of the Renminbi has been under pressure of depreciation in recent years. Due to international pressures on the PRC to allow more flexible exchange rates for the Renminbi, the economic situation and financial market developments in the PRC and abroad and the balance of payments situation in the PRC, the PRC government has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility.

Any appreciation or depreciation in the value of the Renminbi or other foreign currencies that our operations are exposed to will affect our business in different ways. In addition, changes in foreign exchange rates may have an impact on the value of, and any dividends payable on, the Shares in Hong Kong dollars. In such events, our business, financial condition, results of operations and growth prospects may be materially and adversely affected.

Inflation in the PRC could negatively affect our profitability and growth.

Economic growth in China has, in the past, been accompanied by periods of high inflation. According to the National Bureau of Statistics of China, the year-over-year percent increase in the consumer price index in the PRC was 4.5% in December 2019. The PRC's overall economy and the average wage in the PRC are expected to continue to grow. Future increases in the PRC's inflation and material increases in the cost of labor may materially and adversely affect our profitability and results of operations unless we are able to pass on these costs to our students by increasing tuition.

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

Our business and operations in the PRC are governed by the PRC legal system that is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to us and our Shareholders. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management attention.

As our Shareholder, you hold an indirect interest in our operations in China. Our operations in the PRC are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. PRC company law and regulations, in general, and the provisions for the protection of shareholders' rights and access to information, in particular, may be considered less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections. As such, our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of certain other jurisdictions.

It may be difficult to effect service of process upon us, our Directors or our executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.

The legal framework to which our Company is subject is materially different from the Companies Ordinance or corporate law in the United States and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. However, according to the PRC Company Law, shareholders may commence a derivative action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances.

On July 14, 2006, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the "**2006 Arrangement**"). Under the 2006 Arrangement, where any designated people's court in the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court in the PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

On January 18, 2019, the Supreme People's Court of the People's Republic of China and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**"). The 2019 Arrangement stipulates the scope and particulars of judgments, the procedures and ways of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies, among others. The 2019 Arrangement shall apply to any judgment made on or after its effective date by the courts of both sides. The 2006 Arrangement shall be terminated on the same day when the 2019 Arrangement comes into effect. If a "written choice of court agreement" has been signed by parties according to the 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

A majority of our senior management members reside in the PRC, and substantially all of our assets, and substantially all of the assets of our senior management are located in the PRC. Therefore, it may be difficult for investors to effect service of process upon those persons inside the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the Cayman Islands, the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

If we are classified as a PRC "resident enterprise", we could be subject to PRC income tax at the rate of 25% on our worldwide income, holders of our Shares may be subject to a PRC withholding tax upon the dividends payable by us and upon gain from the sale of our Shares.

Under the EIT Law and its implementation rules, if an enterprise incorporated outside the PRC has its "de facto management bodies" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on its worldwide income. The tax authority will normally review factors such as the routine operation of the organizational body that effectively manages the enterprise's production and business operations, locations of personnel holding decision-making power, location of finance and accounting functions and properties of the enterprise. Under the implementation rules for the EIT Law, "de facto management bodies" is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) (the "SAT Circular 82"), on April 22, 2009 and last amended December 29, 2012. SAT Circular 82 provides certain specific criteria for determining whether the "de facto management body" of a Chinese-controlled offshore incorporated enterprise is located inside China, stating that only a company meeting all the criteria would be deemed as having its de facto management body inside China. One of the criteria is that a company's major assets, accounting books and minutes and files of its board and shareholders' meetings are located or kept in the PRC. In addition, the SAT issued a bulletin on July 27, 2011, effective September 1, 2011 and last amended on June 15, 2018, providing more guidance on the implementation of SAT Circular 82. This bulletin clarifies matters including residence status determination, post-determination administration and competent tax authorities. Although both SAT Circular 82 and the bulletin only apply to offshore enterprises controlled by PRC enterprises and there are currently no further detailed rules or precedents applicable to us governing the procedures and specific criteria for determining "de facto management body" for companies like ours, the determination criteria set forth in SAT Circular 82 and the bulletin may reflect the SAT's general position on how the "de facto management body" test should be applied in determining the tax residency status of offshore enterprises and how the administration measures should be implemented with respect to such enterprises, regardless of whether they are controlled by PRC enterprises or PRC individuals.

Since all of our management is currently located in the PRC, it remains unclear as to how the tax residency rule will apply to our case. We do not believe that our Company or our Hong Kong subsidiary, should be qualified as a "resident enterprise" as each of our offshore entities is a company incorporated under the laws of foreign countries or regions. In addition, as holding companies, each of these offshore entities' corporate documents, the board and shareholders' meetings, minutes and files of such meetings are located or kept outside of the PRC. Therefore, we believe that none of our offshore entities should be treated as a "resident enterprise" with its "de facto management bodies" located within China as defined by the relevant regulations for PRC enterprise income tax purposes. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities, there are uncertainties and risks associated with this issue.

Under the Enterprise Income Tax Law and the Individual Income Tax Law of the PRC, shareholders of a PRC resident enterprise will be subject to a 10% for an enterprise or 20% for an individual withholding tax upon dividends received from the PRC resident enterprise and on gain recognized with respect to the sale of shares of the resident enterprise. Accordingly, if we are treated as a PRC resident enterprise, our Shareholders may be subject to a 10% for an enterprise or 20% for an individual withholding tax upon dividends received from us and on gain recognized with respect to the sale of our Shares, unless such withholding tax is reduced by an applicable income tax treaty between China and the jurisdiction of the Shareholder. Any such tax may reduce the returns on your investment in our Shares. In such event, our income tax expenses may increase significantly and our net profit and profit margin could be materially and adversely affected.

Heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business, acquisition or offshore restructuring.

On February 3, 2015, SAT promulgated the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得税若干問題的公告》) (the "**Circular 7**"), which heightened the PRC tax authorities' scrutiny on indirect transfers, by a non-resident enterprise, of assets (including equity interests) of a PRC resident enterprise (the "**PRC Taxable Assets**") and stipulated that tax authorities in the PRC are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of an equity interest in an overseas holding company which directly or indirectly hold the PRC Taxable Assets, by disregarding the existence of the overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, would deem such transfer to have been made for the purpose of evading PRC enterprises income tax and without any reasonable commercial purpose.

There is uncertainty as to the application of the Circular 7. The Circular 7 may be determined by the tax authorities to be applicable to our offshore restructuring transactions, future acquisitions or sale of the shares of our offshore subsidiaries, where non-resident enterprise transferors were involved. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend valuable resources to comply with the Circular 7 or to establish that we and our non-resident enterprises should not be taxed under the Circular 7 for our restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

RISKS RELATING TO THE [REDACTED]

The interests of our Controlling Shareholders may differ from your interests and they may exercise their vote to the disadvantage of our minority Shareholders.

Immediately following the completion of the [**REDACTED**], our Controlling Shareholders will control [**REDACTED**]% of our total issued share capital (assuming the [**REDACTED**] is not exercised). Accordingly, the Controlling Shareholders will, for the foreseeable future, through their voting control, be able to exercise substantial influence over our operations and business strategy, such as matters related to the composition of our Board, selection of our senior management, amount and timing of dividends and other distributions, our overall strategic and investment decisions, issuance of securities and adjustment to our capital structure, amendment to our memorandum and articles of association, and other corporate actions requiring approval of our Shareholders, including merger, consolidation or sale of our assets, or any other change of control event that may affect our other Shareholders generally. Such voting control may discourage certain types of transactions, including those involving an actual or potential change of control of our Company. In the event that there is a divergence of our strategic and other interests from those of the Controlling Shareholders in the future, the Controlling Shareholders may exercise control over our Company in ways that conflict with the interests of our other Shareholders, and minority Shareholders could be disadvantaged.

There has been no prior public market for our Shares and there can be no assurance that an active market would develop.

Prior to the [**REDACTED**], there has been no public market for our Shares. The [**REDACTED**] for our Shares was the result of negotiations among us and the [**REDACTED**] (for itself and on behalf of the [**REDACTED**]) and the [**REDACTED**] may differ significantly from the [**REDACTED**] for our Shares following the [**REDACTED**]. We have applied for [**REDACTED**] of and permission to [**REDACTED**] our Shares on the Stock Exchange. There is no assurance that the [**REDACTED**] will result in the development of an active, liquid [**REDACTED**] for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and [**REDACTED**] at which our Shares will be [**REDACTED**].

The liquidity, [REDACTED] and [REDACTED] of our Shares following the [REDACTED] may be volatile.

The [**REDACTED**] at which our Shares will [**REDACTED**] after the [**REDACTED**] will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we operate and compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;

- the valuation of [**REDACTED**] that are engaged in business activities similar to ours;
- general market sentiment regarding the PRC education industry;
- changes in laws and regulations in China;
- our inability to compete effectively in the market; and
- political, economic, financial and social developments in China and worldwide.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the [**REDACTED**] for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the [**REDACTED**] of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

Because the [REDACTED] per Share is higher than the net tangible book value per Share, purchasers of our Shares in the [REDACTED] will experience immediate dilution.

The [**REDACTED**] of our [**REDACTED**] is higher than the net tangible book value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of our [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in pro forma adjusted consolidated net tangible asset value of HK$[**REDACTED**] per [**REDACTED**], assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**], being the mid-point of our [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**] per [**REDACTED**], existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per [**REDACTED**] of their Shares. If we issue additional Shares in the future, purchasers of our [**REDACTED**] may experience further dilution.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the [REDACTED] of our Shares to decline.

Sales of substantial amounts of Shares in the public market after the completion of the [**REDACTED**], or the perception that these sales could occur, could adversely affect the [**REDACTED**] of our Shares. There will be [**REDACTED**] Shares outstanding immediately following the [**REDACTED**], assuming no exercise of the [**REDACTED**]. Our Controlling Shareholders agreed that any Shares held by them will be subject to a lock-up after the [**REDACTED**]. See "[**REDACTED**]" for more information. However, the [**REDACTED**] may release these securities from these restrictions at any time and such Shares will be freely [**REDACTED**] after the expiry of the lock-up period. Shares which are not subject to a lock-up arrangement represent approximately [**REDACTED**]% of the total issued share capital immediately following the [**REDACTED**] (assuming no exercise of the [**REDACTED**]) and will be freely tradable immediately following the [**REDACTED**].

Since there will be a gap of several days between [REDACTED], holders of our Shares are subject to the risk that [REDACTED].

[**REDACTED**]

We cannot guarantee the accuracy of facts and other statistics with respect to certain information obtained from the Frost & Sullivan Report contained in this document.

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

We cannot, however, guarantee the quality or reliability of such facts and statistics. Although we have taken reasonable care to ensure that the facts and statistics presented are accurately extracted and reproduced from such publications and the Frost & Sullivan Report, they have not been independently verified by us, the [**REDACTED**], the [**REDACTED**], the [**REDACTED**], the [**REDACTED**], the [**REDACTED**] or any other party involved in the [**REDACTED**] and no representation is given as to its accuracy. We therefore make no representation as to the accuracy of such facts and statistics which may not be consistent with other information complied by other sources and prospective investors should not place undue reliance on any facts and statistics derived from public sources or the Frost & Sullivan Report contained in this document.

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

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as "anticipate", "believe", "could", "going forward", "intend", "plan", "project", "seek", "expect", "may", "ought to", "should", "would" or "will" and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this document to the public, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

You may face difficulties in protecting your interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among other things, our Memorandum and Articles, the Companies Act and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

You should read the entire document carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the [REDACTED].

There may be, subsequent to the date of this document but prior to the completion of the [**REDACTED**], press and media coverage regarding us and the [**REDACTED**], which contained, among other things, certain financial information, projections, valuations and other forward-looking information about us and the [**REDACTED**]. We have not authorized the disclosure of any such information in the press or other media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the [**REDACTED**] and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the [**REDACTED**] or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our [**REDACTED**]. By applying to purchase our Shares in the [**REDACTED**], you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the [**REDACTED**].