
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China 21st Century Education Group Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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21世紀教育
21ST CENTURY EDUCATION

China 21st Century Education Group Limited

中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1598)

**CONTINUING CONNECTED TRANSACTIONS
2023 ENTRUSTMENT AGREEMENT
AND
NOTICE OF EGM**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Gram Capital Limited
嘉林資本有限公司

A letter from the Board is set out on pages 7 to 18 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 19 of this circular. A letter from Gram Capital, the Independent Financial Adviser, containing its advice and recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages 20 to 34 of this circular.

A notice convening the EGM to be held at 15/F, South Tower, Zhonghai Plaza, 8 Guanghua Dongli, Chaoyang District, Beijing, the PRC on Friday, 23 December 2022 at 10:00 a.m. is set out on pages EGM-1 to EGM-3 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible and in any event not less than 48 hours before the time scheduled for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

6 December 2022

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“2010 Entrustment Agreement”	the entrustment agreement entered into between Shijiazhuang Institute of Technology and Lionful Education on 21 June 2010 for a term from 1 July 2010 to 30 June 2020;
“2023 Entrustment Agreement”	the entrustment agreement entered into between Shijiazhuang Institute of Technology and Lionful Education on 8 November 2022 for a term from 1 January 2023 to 31 December 2025, and may be renewable by negotiation before expiration of the term;
“Annual Cap(s)”	RMB27.0 million, RMB27.0 million and RMB27.0 million, being the maximum entrustment fee to be received by the Group from Lionful Education for each of the years ending 31 December 2023, 2024 and 2025 under the 2023 Entrustment Agreement, respectively;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors of the Company;
“Company”	China 21st Century Education Group Limited (中國21世紀教育集團有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Contractual Arrangements”	the series of contractual arrangements entered into between, among others, the wholly foreign owned enterprise and the PRC Operating Entities, details of which are described in the section headed “Structured Contracts” in the Prospectus;
“controlling shareholder(s)”	has the meaning given to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;

DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened for the Independent Shareholders to consider and, if thought fit, approve the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps;
“Group” or “we”	the Company, its subsidiaries and the PRC Operating Entities from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“HK\$”	the lawful currency of Hong Kong;
“Independent Board Committee”	the independent board committee of the Company comprising all independent non-executive Directors to advise the Independent Shareholders in respect of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed for the purposes of advising the Independent Board Committee and the Independent Shareholders in respect of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps;
“Independent Shareholders”	Shareholders who will not be required under the Listing Rules to abstain from voting at the EGM;
“Latest Practicable Date”	30 November 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained therein;
“Lionful Education”	Hebei Lionful Education Investment Co., Ltd* (河北廿一世紀教育投資有限公司), a limited liability company established under the laws of the PRC on 2 November 2000, which is wholly-owned by Hebei Xue You Fang Education Technology Co., Ltd.* (河北學有方教育科技有限公司), a limited liability company established under the laws of the PRC on 4 August 2016 and owned as to approximately 80.625% by Mr. Li and 19.375% by Ms. Luo as at the Latest Practicable Date;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time;
“Mr. Li”	Mr. Li Yunong (李雨濃), an executive Director and one of the controlling shareholders of the Company;
“Ms. Luo”	Ms. Luo Xinlan (羅心蘭), one of the controlling shareholders of the Company;
“New Entrustment Agreement”	the entrustment agreement entered into between Shijiazhuang Institute of Technology and Lionful Education on 27 May 2020 for a term from 1 January 2020 to 31 December 2022;
“Peijian Tutorial School”	Hangzhou Huashi Peijian Tutorial School Limited* (杭州華石培尖培訓學校有限公司), which is one of the PRC Operating Entities;
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“PRC Operating Entities”	Shijiazhuang Saintach Education and Technology Co., Ltd.* (石家莊新天際教育科技有限公司), Hebei Saintach Education and Technology Co., Ltd.* (河北新天際教育科技有限公司), Shijiazhuang Institute of Technology, Peijian Tutorial School, Saintach Tutorial Schools, Shinedao Tutorial School and Saintach Kindergartens;
“Prospectus”	the prospectus issued by the Company on the initial public offering and listing dated 15 May 2018;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“Saintach Kindergarten(s)”	Shijiazhuang Qiaoxi District Blue Crystal Saintach Kindergarten* (石家莊市橋西區新天際藍水晶幼兒園), Shijiazhuang Luquan District Fukang Saintach Kindergarten* (石家莊市鹿泉區新天際福康幼兒園), Shijiazhuang Chang’an District Jianhua Saintach Kindergarten* (石家莊市長安區新天際建華幼兒園), Shijiazhuang Qiaoxi District Lidu Saintach Kindergarten* (石家莊市橋西區新天際麗都幼兒園), Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten* (石家莊高新技術產業開發區新天際天山幼兒園), Shijiazhuang Chang’an District Qinghui Saintach Kindergarten* (石家莊市長安區新天際清暉幼兒園), Zhengding County Saintach Kindergarten* (正定縣新天際幼兒園) and Zhengding County Fumenli Saintach Kindergarten* (正定縣新天際福門里幼兒園), which are the PRC Operating Entities;
“Saintach Tutorial School(s)”	Shijiazhuang City Qiaoxi District Bilingual Culture Tutorial School* (石家莊市橋西區雙語文化培訓學校), Shijiazhuang City Chang’an District Saintach Tutorial School* (石家莊市長安區新天際培訓學校), Shijiazhuang Yuhua District Donggang Road Saintach Tutorial School* (石家莊市裕華區東崗路新天際培訓學校), Shijiazhuang City Qiaoxi District Zhicheng Tutorial School* (石家莊市橋西區智城培訓學校), Shijiazhuang City High-tech Zone Saintach Tutorial School* (石家莊市高新區新天際培訓學校) and Shijiazhuang City Xinhua District Huixuan Education Tutorial School* (石家莊市新華區慧軒教育培訓學校), which are the PRC Operating Entities;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
“Share(s)”	ordinary share(s) of nominal value of HK\$0.01 each in the capital of the Company;
“Share Award Plan”	the share award plan adopted by the Company on 14 October 2020;

DEFINITIONS

“Share Option Scheme”	the share option scheme adopted by the Company on 4 May 2018;
“Shareholder(s)”	holder(s) of the Share(s);
“Shijiazhuang Institute of Technology”	Shijiazhuang Institute of Technology* (石家莊理工職業學院), a full-time junior college established under the laws of the PRC on 1 July 2003, which implements high-level professional training and secondary vocational education, of which school sponsors’ interest are wholly-owned by Zerui Education as at the Latest Practicable Date, and is one of the PRC Operating Entities;
“Shijiazhuang Tiedao University”	Shijiazhuang Tiedao University (石家莊鐵道大學), established in 1950, is a technical university specialising in applied engineering and offers a wide range of disciplines covering science, management, economics, arts and social sciences;
“Shinedao Tutorial School”	Shaoxing Shangyu Shinedao Education Tutorial School* (紹興市上虞區學鼎教育培訓學校), which is one of the PRC Operating Entities;
“Sifang College”	Shijiazhuang Tiedao University Sifang College* (石家莊鐵道大學四方學院), established in 2001, an independent institution implementing undergraduate education under approval of the Hebei Provincial People’s Government and confirmation by the Ministry of Education, jointly operated by Shijiazhuang Tiedao University, an independent third party, and Lionful Education which is controlled by controlling shareholders of the Company, Mr. Li and Ms. Luo;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning given to it under the Listing Rules;

DEFINITIONS

“Zerui Education”	Hebei Zerui Education Technology Co., Ltd.* (河北澤瑞教育科技有限公司), a company established under the laws of the PRC with limited liability on 12 July 2017, an indirect wholly-owned subsidiary controlled by the Company through Contractual Arrangements; and
“%”	per cent.

* *for identification purposes only*

The English names of the PRC entities (including schools), PRC laws or regulations and the PRC governmental authorities referred to in this circular are merely translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.

LETTER FROM THE BOARD



21世紀教育
21ST CENTURY EDUCATION

China 21st Century Education Group Limited
中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1598)

Executive Directors:

Mr. Li Yunong (*Chairman*)
Ms. Liu Hongwei
Mr. Ren Caiyin
Ms. Yang Li
Mr. Li Yasheng

Registered office:

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Independent Non-Executive Directors:

Mr. Guo Litian
Mr. Yao Zhijun
Mr. Wan Joseph Jason

Corporate headquarters:

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Shijiazhuang City
Hebei Province
the PRC

Principal place of business in Hong Kong:

31/F, Tower Two, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

6 December 2022

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS
2023 ENTRUSTMENT AGREEMENT

BACKGROUND

Reference is made to the announcement of the Company dated 8 November 2022 in relation to, among others, the 2023 Entrustment Agreement and the transactions contemplated thereunder. On 8 November 2022 (after trading hours), Shijiazhuang Institute of Technology entered into the 2023 Entrustment Agreement with Lionful Education for a term from 1 January 2023 to 31

LETTER FROM THE BOARD

December 2025 to renew the New Entrustment Agreement. Pursuant to the 2023 Entrustment Agreement, Lionful Education engaged Shijiazhuang Institute of Technology to implement the key school operation and student administration of west campus of Sifang College.

Starting from May 2002, Lionful Education and Shijiazhuang Tiedao University started joint schooling in Sifang College, an educational institution providing undergraduate education and offering undergraduate degrees in the PRC. Pursuant to the joint schooling arrangement agreed between Lionful Education and Shijiazhuang Tiedao University, Lionful Education is responsible for the operation and management in the west campus of Sifang College, which is located at the same premises where Shijiazhuang Institute of Technology operates. Accordingly, Lionful Education shall be entitled to receive 65% of tuition revenue generated from west campus of Sifang College and Shijiazhuang Tiedao University shall be entitled to receive the remaining 35%. With the gradual development of Shijiazhuang Institute of Technology, it has developed an advanced management system with sufficient administrative and human resources in relation to school management and operation.

The co-sponsors of Sifang College are Lionful Education and Shijiazhuang Tiedao University. The rights and obligations of the parties and the mechanisms for distributional benefits are agreed upon the joint schooling arrangement and the articles of Sifang College. Sifang College has established its board of directors, which comprises five members. Three of them are appointed by Shijiazhuang Tiedao University, with one assuming the role of board chairman; and two are appointed by Lionful Education. The board of directors of Sifang College, as the decision-making body of Sifang College, is responsible for the development plan and operations management of Sifang College.

The detailed work division of Lionful Education and Shijiazhuang Tiedao University are as follows:

Shijiazhuang Tiedao University

1. Preparing and reporting the overall student recruitment plan and new admission work of Sifang College;
2. Managing the overall student status of Sifang College;

Lionful Education

1. Organizing the theoretical and practical teaching of the students of west campus of Sifang College, according to the cultivation plan and course syllabus provided by Shijiazhuang Tiedao University;
2. Providing teaching venues and arranging food and accommodation for the students of west campus of Sifang College; and

LETTER FROM THE BOARD

Shijiazhuang Tiedao University

Lionful Education

3. Preparation of the overall course syllabus, textbook procurement tendering, approval of student graduation eligibility and certificate issuance of Sifang College; and
 4. Reviewing teachers' qualifications and conditions for experimental teaching, overseeing the teaching process and quality and issuing student scholarships.
3. Managing the education of students at west campus of Sifang College according to the requirements of Shijiazhuang Tiedao University, with regular feedback of such education management to Shijiazhuang Tiedao University.

Subsequently, on 21 June 2010, Shijiazhuang Institute of Technology entered into the 2010 Entrustment Agreement with Lionful Education, pursuant to which Lionful Education engaged Shijiazhuang Institute of Technology to implement the key school operation and student administration of west campus of Sifang College, of which the yearly entrusted management fee shall be 65% of the tuition generated by west campus of Sifang College. Shijiazhuang Institute of Technology and Lionful Education entered into the New Entrustment Agreement on 27 May 2020 to renew the 2010 Entrustment Agreement for a term from 1 January 2022 to 31 December 2022.

As the New Entrustment Agreement is going to expire on 31 December 2022 and in light of the business needs and the benefits of entering into the 2023 Entrustment Agreement, the Board proposes to seek the approval of the Independent Shareholders for entering into the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed annual caps.

The details of the 2023 Entrustment Agreement are as follows:

2023 ENTRUSTMENT AGREEMENT

The principal terms of the 2023 Entrustment Agreement are set out below:

Date: 8 November 2022

Parties: (i) Shijiazhuang Institute of Technology (as the service provider); and
(ii) Lionful Education (as the recipient of services)

Term: From 1 January 2023 to 31 December 2025

LETTER FROM THE BOARD

Subject matter: Pursuant to the 2023 Entrustment Agreement, Lionful Education engaged Shijiazhuang Institute of Technology, which possesses sufficient campus management capability, to implement the key school operation and student administration of west campus of Sifang College. The principal terms of which are summarized as follows:

1. Lionful Education entrusts Shijiazhuang Institute of Technology to implement the teaching and operation of the west campus of Sifang College under the joint schooling arrangement, and pays Shijiazhuang Institute of Technology the entrustment fee, and Shijiazhuang Institute of Technology guarantees the normal operation of the west campus of Sifang College.
2. Shijiazhuang Institute of Technology is responsible for, among others, organizing teaching according to Sifang College's training plan and curriculum syllabus, assessment of students and ensuring the quality of teaching and management of the teaching premises.
3. Shijiazhuang Institute of Technology has the right to obtain entrustment fees in a timely and reasonable manner. The entrustment fee shall be confirmed and settled every month.
4. The yearly entrustment fee is 65% of the tuition generated by west campus of Sifang College. Such rate represents the amount of revenue generated from west campus of Sifang College's tuition to which Lionful Education is entitled as agreed between Lionful Education and Shijiazhuang Tiedao University pursuant to the joint schooling arrangement.

Pricing policy: The entrustment fee was determined through arm's length negotiation between Lionful Education and the Group, taking into account factors including the reputation of Shijiazhuang Tiedao University and the capacity and quality of school facilities provided by Lionful Education to west campus of Sifang College for its operations, the expected number of students for the three years ending 31 December 2025 and the gross profit margin for the two years ended 31 December 2021 and the nine months ended 30 September 2022 of west campus of Sifang College.

The rate of entrustment fee has not changed since the 2010 Entrustment Agreement. Lionful Education does not retain any tuition fee of the west campus of Sifang College and does not earn any difference between the tuition fee received pursuant to the joint schooling arrangement and the tuition fee paid/to be paid pursuant to the 2010 Entrustment Agreement, the New Entrustment Agreement and the 2023 Entrustment Agreement.

LETTER FROM THE BOARD

Condition precedent: The terms of the 2023 Entrustment Agreement are conditional upon the Independent Shareholders having approved the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps.

Key school operation and student administration of west campus of Sifang College undertaken by Shijiazhuang Institute of Technology

Shijiazhuang Institute of Technology is responsible for the following teaching and student administration work of west campus of Sifang College:

- (a) *Teaching*: the planning and formulation of teaching plans, syllabus and curriculum, the organization of teaching and the scheduling of classes for the transportation engineering faculty, mechanical engineering faculty and arts faculty, the management and evaluation of teaching quality, the procurement of school laboratories equipment and its maintenance, the arrangement and implementation of examinations, the ordering and distribution of textbooks, the upkeeping of the teaching materials and relevant student records, the organisation of research topics and the distribution, and the budgeting of teaching expenses; and
- (b) *Student administration work*: the formulation, drafting and implementation of rules and regulations in relation to student management, such as student registration and management, student code, merit evaluation and awards and punishments, the selection and recruitment of full-time and part-time teaching staff and their assessment, training and management, the enrollment of students and implementation of employment, the management of the handling, appealing and reporting of students in breach of rules, the management of funding to student awards and subsidies, the allocation of funding to work-study and student activities at all level, the selection and evaluation of outstanding students and student leaders, the organization of teaching staff of each faculty, nurturing, development and evaluation of student party members, the coordination and the implementation of student games, large-scale cultural and sports activities and various competitions and public welfare activities to enhance the overall quality of students, the maintenance of student records in particular the statistical analyses of it, the management and inspection of student dormitories and the arrangement of duty roster of west campus of Sifang College.

Shijiazhuang Institute of Technology is also responsible for the hiring and recruiting of the teaching and administration staff. There are approximately 105 staff in charge of the daily operations and teaching of west campus of Sifang College, with 85 staff obtained a master's degree and all teaching staff obtained the certificate of higher education teacher status* (高校教師資格證).

LETTER FROM THE BOARD

Recognition of the entrustment fees

Shijiazhuang Institute of Technology has the right to obtain entrustment fees in a timely and reasonable manner. The entrustment fee are confirmed, settled and recognised on a monthly basis with reference to the management accounts of west campus of Sifang College, except for the three months' school holiday, based on 65% of the yearly tuition fee generated by west campus of Sifang College at the beginning of the academic year, i.e. September. Shijiazhuang Institute of Technology is responsible for establishing the independent management accounts of west campus of Sifang College and maintaining the independent management account by the special personnel appointed by Lionful Education, with regular recognition, measurement, recording and reporting of the accounts in accordance with the provisions of China Accounting Standards for Enterprises and the relevant laws and regulations.

Historical annual caps and transaction amounts

The table below sets out the historical annual caps for the three financial years ending 31 December 2022 and also the historical transaction amounts for the two years ended 31 December 2021 and the nine months ended 30 September 2022 under the New Entrustment Agreement:

	For the year ended 31 December		For the year ending 31 December
	2020	2021	2022
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Annual caps	<u>24.0</u>	<u>24.0</u>	<u>24.0</u>
	For the year ended 31 December		For the nine months ended 30 September
	2020	2021	2022
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Historical transaction amounts	<u>19.5</u>	<u>20.9</u>	<u>14.8</u>

The historical transaction amount for the nine months ended 30 September 2022 was based on the Company's management accounts and was an estimation only. As at the Latest Practicable Date, the corresponding annual cap for the year ending 31 December 2022 has not been exceeded.

LETTER FROM THE BOARD

Historical number of enrolled students and entrustment fee of west campus of Sifang College

	For the year ended		For the nine
	31 December		months ended
	2020	2021	30 September
Number of enrolled students	3,260	3,653	3,888
Entrustment fee (<i>RMB million</i>)	19.5	20.9	14.8

West campus of Sifang College maintains a relatively stable annual enrollment target of 810 for undergraduate programs and approximately 400 for sub-degree programs. Currently, the west campus of Sifang College can accommodate more enrolled students, providing the possibility of further increasing the number of students in the future.

Pursuant to the requirements of the Notice on Further Regulating the Management of Fee Charging by Universities issued by Hebei Provincial Bureau of Commodity Prices, the Provincial Department of Finance and the Provincial Department of Education, the standard annual tuition is RMB10,000 per student for general undergraduate majors of independent colleges established by regular universities. As for west campus of Sifang College, the standard annual tuition is RMB10,000 per student for all the majors.

Furthermore, pursuant to the Notice of Hebei Provincial Department of Education on Properly Working on Selection for the Vocational College to Sub-degree Transfer Examination of Regular Universities of Hebei Province in 2020, Sifang College started to recruit students transferred from vocational college to sub-degree programs in the second half of 2020. Their standard annual tuition is the same as that of the current students enrolled in undergraduate programs.

Accordingly, with future student increase in the west campus of Sifang College, tuition fee is expected to increase.

Proposed Annual Caps and basis of determination

The table below sets out the proposed Annual Caps of the 2023 Entrustment Agreement for the three financial years ending 31 December 2025:

	For the year ending 31 December		
	2023	2024	2025
	(<i>RMB million</i>)	(<i>RMB million</i>)	(<i>RMB million</i>)
Annual Caps	<u>27.0</u>	<u>27.0</u>	<u>27.0</u>

LETTER FROM THE BOARD

The proposed Annual Caps were determined with reference to, among others, the following factors:

- (i) the historical amounts of the revenue generated from tuition from west campus of Sifang College;
- (ii) the reputation of Shijiazhuang Tiedao University and the capacity and quality of school facilities provided by Lionful Education to west campus of Sifang College for its operations; and
- (iii) the expected growth in number of students and tuition of west campus of Sifang College.

The proposed Annual Caps for the three financial years ending 31 December 2025 are calculated as follows:

	Four-year undergraduate students	Two-year sub-degree students transferred from vocational college	Total expected transaction amount	Proposed Annual Caps
Financial year ending 31 December 2023	810 students in each grade × 4 grades × RMB10,000 × 65% = RMB21,060,000	400 students in each grade × 2 grades × RMB10,000 × 65% = RMB5,200,000	RMB26,260,000	RMB27.0 million
Financial year ending 31 December 2024	810 students in each grade × 4 grades × RMB10,000 × 65% = RMB21,060,000	400 students in each grade × 2 grades × RMB10,000 × 65% = RMB5,200,000	RMB26,260,000	RMB27.0 million
Financial year ending 31 December 2025	810 students in each grade × 4 grades × RMB10,000 × 65% = RMB21,060,000	400 students in each grade × 2 grades × RMB10,000 × 65% = RMB5,200,000	RMB26,260,000	RMB27.0 million

REASONS FOR AND BENEFIT OF ENTERING INTO THE 2023 ENTRUSTMENT AGREEMENT

Based on our sound and solid collaborative ties with Lionful Education and Shijiazhuang Tiedao University, the entering into of the 2023 Entrustment Agreement allows us to leverage and monetize the experience and capabilities we have built up in operating our own schools, and generating a steady stream of revenue to us.

Each of the Directors (including the independent non-executive Directors whose views are set out in the section headed “Letter from Independent Board Committee” in this circular, after considering the advice from Gram Capital) consider that the terms of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps were determined on arm’s length basis and are on normal commercial terms and are fair and reasonable and the entering into of the 2023 Entrustment Agreement is in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

INFORMATION OF THE PARTIES

The Group and Shijiazhuang Institute of Technology

The Company is an investment holding company and the Group is a private education service provider based in Hebei Province of the PRC, which provides educational services and related management services in the PRC.

Shijiazhuang Institute of Technology is a full-time junior college established under the laws of the PRC on 1 July 2003, which implements high-level professional training and secondary vocational education, and is one of the PRC Operating Entities, the financial results of which have been consolidated in the financial statements of the Group as if it is a consolidated subsidiary pursuant to the Contractual Arrangements.

Lionful Education

Lionful Education is a limited liability company established under the laws of the PRC on 2 November 2000 and is principally engaged in education services. It is wholly-owned by Hebei Xue You Fang Education Technology Co., Ltd.* (河北學有方教育科技有限公司), a limited liability company established under the laws of the PRC on 4 August 2016 and owned as to approximately 80.625% by Mr. Li and 19.375% by Ms. Luo as at the Latest Practicable Date.

INTERNAL CONTROL MEASURES

In order to ensure that the transactions contemplated under the 2023 Entrustment Agreement will be on normal commercial terms, and that the relevant fees will not fall below the prevailing market rate, the Group will adopt the following measures:

- (i) the finance department of the Group, will be responsible for regular monitoring of the continuing connected transactions contemplated under the 2023 Entrustment Agreement to ensure that the entrustment fee will not exceed the Annual Cap for that financial year and the transactions will be conducted in accordance with the Company's connected transactions management system, information disclosure management system and contract management system;
- (ii) the Company will engage its auditors to conduct annual review of the transactions contemplated under the 2023 Entrustment Agreement; and
- (iii) the independent non-executive Directors will review the continuing connected transactions to be conducted pursuant to the 2023 Entrustment Agreement on an annual basis and confirm in the annual report of the Company whether such continuing connected transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better, and in accordance with the 2023 Entrustment Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

Lionful Education is controlled by Mr. Li and Ms. Luo as to approximately 80.625% and 19.375%, respectively. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li, an executive Director and one of the controlling shareholders of the Company and Ms. Luo, one of the controlling shareholders of the Company, are both connected persons of the Company. Lionful Education is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li and Ms. Luo and a connected person of the Company.

As the highest applicable percentage ratio for the 2023 Entrustment Agreement exceeds 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company which are subject to the announcement, reporting, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr. Li has a material interest in the 2023 Entrustment Agreement, he has abstained from voting on the Board resolution to approve the 2023 Entrustment Agreement. Save as disclosed above, none of the Directors has any material interest in the transactions contemplated under the 2023 Entrustment Agreement and hence no other Director was required to abstain from voting on the relevant resolution approving the same.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee, comprising Mr. Guo Litian, Mr. Yao Zhijun and Mr. Wan Joseph Jason, all being independent non-executive Directors, has been established to consider the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution regarding the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps. None of the members of the Independent Board Committee has any material interest in the 2023 Entrustment Agreement.

Gram Capital has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps.

EGM AND PROXY ARRANGEMENT

The notice of the EGM is set out on pages EGM-1 to EGM-3 of this circular. Pursuant to the Listing Rules, the votes of the Independent Shareholders on the proposed ordinary resolution approving the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps will be taken by way of poll at the EGM and an announcement on the poll results will be made by the Company after the EGM.

LETTER FROM THE BOARD

Any Shareholder who has a material interest in the 2023 Entrustment Agreement, together with its close associates, shall abstain from voting on the resolution in relation thereto to be proposed at the EGM. As at the Latest Practicable Date, the controlling shareholders of the Company, namely Sainange Holdings Company Limited (“**Sainange Holdings**”), which currently holds 754,590,000 Shares (representing approximately 64.98% of the issued share capital of the Company as at the Latest Practicable Date) and Sainray Limited which currently holds 92,736,000 Shares (representing approximately 7.99% of the issued share capital of the Company as at the Latest Practicable Date). Sainange Holdings is wholly-owned by Mr. Li while Sainray Limited is wholly-owned by Ms. Luo.

According to an acting in concert confirmation signed by Mr. Li and Ms. Luo dated 19 December 2016 (as supplemented on 1 September 2017), Mr. Li and Ms. Luo, the mother-in-law of Mr. Li, have been acting in concert since April 2005. Accordingly, each of Mr. Li, Ms. Luo, Sainange Holdings and Sainray Limited is deemed to be interested in the Shares/underlying Shares held by other parties to the concert party agreement. The interests of Sainange Holdings and Sainray Limited were duplicated with the interests of Mr. Li and Ms. Luo. Accordingly, given Mr. Li and Ms. Luo have material interest in the 2023 Entrustment Agreement, each of them and their respective close associates were required to abstain from voting on the relevant resolution approving the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps at the EGM.

Save as disclosed above and to the best of the Directors’ knowledge, as at the Latest Practicable Date, no other Shareholder had any material interest in the 2023 Entrustment Agreement, and no other Shareholder is required to abstain from voting at the EGM on the relevant resolution approving the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.21centuryedu.com).

Whether or not you are able to attend the EGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company’s branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish and in such event, the form of proxy shall be deemed to be revoked.

For determining the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Tuesday, 20 December 2022 to Friday, 23 December 2022 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the

LETTER FROM THE BOARD

Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 19 December 2022.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 19 of this circular and the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders set out on pages 20 to 34 of this circular in connection with the continuing connected transactions contemplated under the 2023 Entrustment Agreement, the corresponding proposed Annual Caps and the principal factors and reasons considered by Gram Capital in arriving at such advice.

The Directors (including the independent non-executive Directors whose views are set out in the section headed "Letter from Independent Board Committee" in this circular, after considering the advice from Gram Capital) are of the view that the terms of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps are fair and reasonable, on normal commercial terms and the 2023 Entrustment Agreement was entered into in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the entering into of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps at the EGM.

Accordingly, the Board (including the independent non-executive Directors) also recommends the Independent Shareholders to vote in favour of the resolution to approve the entering into of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendix to this circular.

Yours faithfully
For and on behalf of the Board
China 21st Century Education Group Limited
Li Yunong
Chairman



21世紀教育
21ST CENTURY EDUCATION

China 21st Century Education Group Limited

中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1598)

6 December 2022

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
2023 ENTRUSTMENT AGREEMENT**

We refer to the circular of the Company dated 6 December 2022 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in this letter shall have the same meanings as in the Circular.

We have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the entering into of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of 2023 Entrustment Agreement and the advice of Gram Capital in relation thereto as set out on pages 20 to 34 of the Circular, we are of the opinion that the terms of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps are fair and reasonable, on normal commercial terms and the 2023 Entrustment Agreement is entered into in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to approve the entering into of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed Annual Caps at the EGM.

Yours faithfully
Independent Board Committee

Mr. Guo Litian
*Independent
non-executive Director*

Mr. Yao Zhijun
*Independent
non-executive Director*

Mr. Wan Joseph Jason
*Independent
non-executive Director*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Transaction for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

6 December 2022

*To: The independent board committee and the independent shareholders
of China 21st Century Education Group Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS RENEWAL OF ENTRUSTMENT AGREEMENT

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the 2023 Entrustment Agreement (the “**Transaction**”) and the corresponding annual caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 6 December 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 27 May 2020, Shijiazhuang Institute of Technology (one of the Group’s PRC Operating Entities) and Lionful Education entered into the New Entrustment Agreement for a term from 1 January 2020 and to 31 December 2022 for the provision of school operation and student administration of west campus of Sifang College by Shijiazhuang Institute of Technology (the “**Entrustment Services**”).

On 8 November 2022 (after trading hours), Shijiazhuang Institute of Technology entered into the 2023 Entrustment Agreement with Lionful Education for a term from 1 January 2023 to 31 December 2025 to renew the New Entrustment Agreement. Pursuant to the 2023 Entrustment Agreement, Lionful Education engaged Shijiazhuang Institute of Technology to continue the provision of the Entrustment Services.

With reference to the Board Letter, the Transaction constitutes continuing connected transactions of the Company which is subject to the announcement, reporting and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM GRAM CAPITAL

The Independent Board Committee comprising Mr. Guo Litian, Mr. Yao Zhijun and Mr. Wan Joseph Jason (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the Transaction was entered into in the ordinary and usual course of business of the Group and on normal commercial terms; (ii) whether the terms of the Transaction are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Transaction at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as independent financial adviser in respect of (i) the discloseable and connected transaction as contained in the Company's circular dated 14 December 2020; (ii) the major and connected transaction as contained in the Company's circular dated 29 November 2021; and (iii) the discloseable and connected transaction as contained in the Company's circular dated 31 August 2022. Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transaction. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

LETTER FROM GRAM CAPITAL

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Shijiazhuang Institute of Technology, Lionful Education, Mr. Li, Ms. Luo, their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transaction and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for the Transaction

Information on the Group

With reference to the Board Letter, the Company is an investment holding company and the Group is a private education service provider based in Hebei Province of the PRC, which provides educational services and related management services in the PRC.

LETTER FROM GRAM CAPITAL

Set out below are the financial information of the Group for the two years ended 31 December 2021 and for the six months ended 30 June 2022, as extracted from the Company’s annual report for the year ended 31 December 2021 (the “**2021 Annual Report**”) and the Company’s interim report for the six months ended 30 June 2022 (the “**2022 Interim Report**”):

	For the six months ended 30 June 2022 RMB’000 (unaudited)	For the year ended 31 December 2021 RMB’000 (audited)	For the year ended 31 December 2020 RMB’000 (audited)	Change from 2020 to 2021 %
Revenue	144,822	308,767	253,802	21.66
— Vocational education	109,957	185,581	152,806	21.45
— Quality-oriented education	34,865	123,186	100,996	21.97
Gross profit	71,847	126,825	122,285	3.71
Profit for the year/period	27,103	28,740	78,772	(63.51)

As illustrated in the above table, the Group’s revenue increased from approximately RMB253.8 million for the year ended 31 December 2020 (“**FY2020**”) to approximately RMB308.8 million for the year ended 31 December 2021 (“**FY2021**”), representing an increase of approximately 21.66%. With reference to the 2021 Annual Report, such increase was mainly due to (i) the increase in student enrolment of Shijiazhuang Institute of Technology (representing the Group’s vocational education); and (ii) the increase in revenue generated from quality-oriented education due to mitigation of the epidemic. The Group recorded revenue of approximately RMB144.8 million for the six months ended 30 June 2022 (“**1H2022**”), representing a decrease of approximately 8.34% as compared to that for the corresponding period in 2021. With reference to the 2022 Interim Report, such decrease in revenue was mainly due to business restructuring and closure of some K12 businesses. The Group’s revenue from vocational education accounted for approximately 60.21%, 60.10% and 75.93% of the Group’s revenue for FY2020, FY2021 and 1H2022, respectively.

The Group’s gross profit increased by 3.71% from approximately RMB122.3 million for FY2020 to approximately RMB126.8 million for FY2021. With reference to the 2021 Annual Report, such increase was mainly due to increase in the Group’s revenue, as partially offset by decrease in gross profit margin due to full resumption of teaching activities of quality-oriented education which increased cost of sales.

LETTER FROM GRAM CAPITAL

The Group's gross profit decreased by approximately 11.25% for 1H2022 as compared to the that for the corresponding period in 2021, and the Group's gross profit margin was approximately 49.61% for 1H2022, representing a decrease of approximately 1.63 percentage points as compared to the that for the corresponding period in 2021. With reference to the 2022 Interim Report, such decrease was mainly due to the closure of some K12 businesses.

The Group's profit decreased from approximately RMB78.8 million for FY2020 to approximately RMB28.7 million for FY2021, representing a decrease of approximately 63.51%. With reference to the 2021 Annual Report, such decrease was mainly due to (i) increase in administrative expenses; (ii) increase in other expenses as a result of recognition of impairment of goodwill and intangible assets and decrease in fair value of financial instruments; and (iii) increase in finance costs, as partially offset by increase in revenue, gross profit and other income and net gains.

The Group's profit for 1H2022 decreased by approximately 38.62% as compared to the corresponding period in 2021. With reference to the 2022 Interim Report, such decrease was mainly due to (i) decrease in revenue, gross profit and gross profit margin as aforementioned; (ii) increase in other expenses; and (iii) increase in finance costs.

With reference to the 2022 Interim Report, as at 30 June 2022, the Company owned 13 schools, including 1 private college under vocational education segment (i.e. Shijiazhuang Institute of Technology) and was entrusted with the operation of the Sifang College West Campus; 1 Peijian Tutorial School, 3 Shinedao Tutorial Schools and 8 Saintach Kindergartens under quality-oriented education segment.

With reference to the 2022 Interim Report, as a comprehensive private education service provider, the Group have kept leveraging on "content + technology" to promote the development of the education industry. While focusing on the overall goals of national education modernization and "dual circulation" of economic development, the Group will make great effort to develop vocational education, and propel the rapid development of related professions through adding popular and frontline majors and attracting high-quality teachers with introducing academic leader. Meanwhile, the Group expands the scale of education by building a new campus of Shijiazhuang Institute of Technology, and strive to improve the level and quality of education, so as to cultivate more talents that possess technical skills with higher quality for future development.

Information on Shijiazhuang Institute of Technology

With reference to the Board Letter, Shijiazhuang Institute of Technology is a full-time junior college established under the laws of the PRC on 1 July 2003, which implements high-level professional training and secondary vocational education, and is one of the PRC Operating Entities, the financial results of which have been consolidated in the financial statements of the Group as if it is a consolidated subsidiary pursuant to the Contractual Arrangements.

LETTER FROM GRAM CAPITAL

Information on Lionful Education

With reference to the Board Letter, Lionful Education is a limited liability company established under the laws of the PRC on 2 November 2000 and is principally engaged in education services. It is wholly-owned by Hebei Xue You Fang Education Technology Co., Ltd.* (河北學有方教育科技有限公司), a limited liability company established under the laws of the PRC on 4 August 2016 and owned as to approximately 80.625% by Mr. Li and 19.375% by Ms. Luo as at the Latest Practicable Date. Lionful Education is a connected person of the Company.

Reasons for and benefits for the Transaction

As advised by the Directors, started from May 2002, Lionful Education and Shijiazhuang Tiedao University started joint schooling for Sifang College. Pursuant to the joint schooling arrangement agreed between Lionful Education and Shijiazhuang Tiedao University (the “**Joint Schooling Arrangement**”), Lionful Education is responsible for the operation and management in west campus of Sifang College. Accordingly, Lionful Education shall be entitled to receive 65% of tuition fee generated from west campus of Sifang College and Shijiazhuang Tiedao University shall be entitled to receive the remaining 35%. Subsequently, on 21 June 2010 and on 27 May 2020, Shijiazhuang Institute of Technology entered into the entrustment agreement (the “**2010 Entrustment Agreement**”) and the New Entrustment Agreement respectively with Lionful Education.

Pursuant to the 2010 Entrustment Agreement and the New Entrustment Agreement, Lionful Education engaged Shijiazhuang Institute of Technology to provide the Entrustment Services and the yearly entrustment fee (the “**Entrustment Fee**”) shall be 65% of the tuition fee generated by west campus of Sifang College.

With reference to the Board Letter, based on the Group’s sound and solid collaborative ties with Lionful Education and Shijiazhuang Tiedao University, the entering into of the 2023 Entrustment Agreement allows the Group to leverage and monetize the experience and capabilities it has built up in operating its own schools, and keeps bringing a steady stream of revenue.

As advised by the Directors, the revenue generated from the Entrustment Services was recorded under the Group’s vocational education segment. As depicted from the table under the section head “Information on the Group” above, the Group’s revenue from vocational education accounted for approximately 60.21%, 60.10% and 75.93% of the Group’s revenue for FY2020, FY2021 and 1H2022, respectively.

LETTER FROM GRAM CAPITAL

Industry overview

Number of enrolments in higher education institutions in the PRC (including Hebei Province)

Set out below are the number of enrolments in higher education institutions in the PRC (including Hebei Province) during the five years ended 31 December 2020, being the latest five full-year statistics published by the Wind Financial Terminal:

	2020	2019	2018	2017	2016
Number of enrolments in higher education institutions in the PRC	32,852,948	30,315,262	28,310,348	27,535,869	26,958,433
Number of enrolments in higher education institutions in Hebei Province	1,604,798	1,473,971	1,342,631	1,268,873	1,216,096

As shown in the table above, both the number of enrolments in higher education institutions in the PRC (including Hebei Province) and the number of enrolments in higher education institutions in Hebei Province recorded year-on-year increase during each of year 2017, 2018, 2019 and 2020. The number of enrolments in higher education institutions in the PRC increased from approximately 26.96 million enrolments for year 2016 to approximately 32.85 million enrolments for year 2020, representing a compound annual growth rate of 5.07%. The number of enrolments in higher education institutions in Hebei Province increased from approximately 1.22 million enrolments for year 2016 to approximately 1.60 million enrolments for year 2020, representing a compound annual growth rate of 7.18%.

Number of enrolments in private higher education institutions in the PRC

Set out below are the number of enrolments in private higher education institutions in the PRC during the five years ended 31 December 2020, being the latest five full-year statistics published by the Wind Financial Terminal:

	2020	2019	2018	2017	2016
Number of enrolments in private higher education institutions in the PRC	7,913,376	7,088,280	6,497,493	6,513,078	6,162,750

As shown in the table above, the number of enrolments in private higher education institutions in the PRC recorded year-on-year increase during each of year 2017, 2019 and 2020. Despite the number of enrolments in private higher education institutions in the PRC recorded a slight decrease during year 2018, the number of enrolments in

LETTER FROM GRAM CAPITAL

private higher education institutions in the PRC increased from approximately 6.16 million enrolments for year 2016 to approximately 7.91 million enrolments for year 2020, representing a compound annual growth rate of 6.45%.

In light of the above, we are of the view that the prospects of the higher education industry in the PRC (including Hebei Province) are generally positive.

Having considered the above, we concur with the Directors that the Transaction is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the 2023 Entrustment Agreement

The tables below summarise the major terms of the 2023 Entrustment Agreement:

Date:	8 November 2022
Parties:	(i) Shijiazhuang Institute of Technology (as the service provider); and (ii) Lionful Education (as the recipient of services)
Term:	From 1 January 2023 to 31 December 2025
Subject:	<p>Pursuant to the 2023 Entrustment Agreement, Lionful Education engaged Shijiazhuang Institute of Technology, which possess sufficient campus management capability, to implement the key school operation and student administration of west campus of Sifang College. The principal terms of which are summarized as follows:</p> <ol style="list-style-type: none">1. Lionful Education entrusts Shijiazhuang Institute of Technology to implement the teaching and operation of the west campus of Sifang College under the Joint Schooling Arrangement, and pays Shijiazhuang Institute of Technology the Entrustment Fee, and Shijiazhuang Institute of Technology guarantees the normal operation of the west campus of Sifang College.2. Shijiazhuang Institute of Technology is responsible for, among others, organizing teaching according to Sifang College's training plan and curriculum syllabus; assessment of students ensuring the quality of teaching and management of the teaching premises.

LETTER FROM GRAM CAPITAL

3. Shijiazhuang Institute of Technology has the right to obtain Entrustment Fee in a timely and reasonable manner. The Entrustment Fee shall be confirmed and settled every month.
4. The yearly Entrustment Fee is 65% of the tuition generated by west campus of Sifang College. Such rate represents the amount of revenue generated from west campus of Sifang College's tuition to which Lionful Education is entitled as agreed between Lionful Education and Shijiazhuang Tiedao University pursuant to the Joint Schooling Arrangement.

Pricing policy

With reference to the Board Letter, the Entrustment Fee was determined through arm's length negotiation between Lionful Education and the Group, taking into account factors including the reputation of Shijiazhuang Tiedao University and the capacity, quality of school facilities provided by Lionful Education to west campus of Sifang College for its operations, the expected number of students for the three years ending 31 December 2025 and the gross profit margin for the two years ended 31 December 2021 and for the nine months ended 30 September 2022 of west campus of Sifang College.

As advised by the Directors, the rate of Entrustment Fee has not changed since the 2010 Entrustment Agreement. Lionful Education does not retain any tuition fee of west campus of Sifang College and does not earn any difference between the tuition fee received pursuant to the Joint Schooling Arrangement and the tuition fee paid/to be paid pursuant to the 2010 Entrustment Agreement, the New Entrustment Agreement or the 2023 Entrustment Agreement.

For the purpose of assessing the fairness and reasonableness of the Entrustment Fee, we enquired into the Directors regarding the Group's provision of school operation and student administration service to independent third parties. Nevertheless, the Directors advised us that up to the date of the 2023 Entrustment Agreement, the Group did not provide any school operation and student administration service to independent third parties. In addition, we could not obtain entrustment fee information for other school operation entrustment arrangement from public source. Accordingly, we are unable to compare the Entrustment Fee with entrustment fee offered by independent third parties to the Group or compare the Entrustment Fee with entrustment fee in other school operation entrustment arrangements.

LETTER FROM GRAM CAPITAL

Alternatively, we assessed the Entrustment Fee from a gross profit perspective which can demonstrate the profitability of providing the Entrustment Services. For our due diligence purpose, (i) we obtained the historical revenue and cost breakdown of the operation of west campus of Sifang College for FY2020, FY2021 and the nine months ended 30 September 2022 (“**9M2022**”) by Shijiazhuang Institute of Technology after taking into account the Entrustment Fee of 65%; and (ii) based on such historical revenue and cost breakdown, the gross profit margin for FY2020, FY2021 and 9M2022 were approximately 53.4%, 52.5% and 50.9% (the “**Historical GP Margin(s)**”) respectively.

For the purpose of assessing the fairness and reasonableness of the Entrustment Fee, we (i) searched for companies listed in Hong Kong which (a) engaged in provision of higher/vocational education in the PRC, and derived majority of their revenue from such business based on their respective published financial information of the latest financial year; (b) recorded gross profit in the latest financial year; and (c) the shares of which were not suspended for trading for more than six months as at the date of the announcement; and (ii) observed their gross profit margin for comparison. To the best of our knowledge and as far as we are aware of, we found 19 Hong Kong listed companies which meet the said criteria (the “**Comparable Companies**”) and they are exhaustive. Shareholders should note that the businesses, operations and scale of the Comparable Companies may not be exactly the same as the Entrustment Services or the Company. Nevertheless, the Comparable Companies’ gross profit margins can reflect the gross profit margins of companies engaging in provision of higher/vocational education in the PRC (nature of the Entrustment Services is also provision of higher/vocational education in the PRC).

LETTER FROM GRAM CAPITAL

Set out below are gross profit margins and other particulars of the Comparable Companies based on their published financial information of the latest financial year:

Company name (stock code)	Year-end date	Revenue for latest financial year RMB'000	Percentage of revenue derived from provision of higher/vocational education in the PRC Approximate %	Gross profit margin Approximate %
Edvantage Group Holdings Limited (382)	31 August 2021	1,251,644	99%	50
China East Education Holdings Limited (667)	31 December 2021	4,139,700	98%	51
China Education Group Holdings Ltd (839)	31 August 2021	3,682,440	94%	59
Leader Education Limited (1449)	31 August 2021	196,143	100%	50
Shanghai Gench Education Group Limited (1525)	31 December 2021	683,580	100%	62
Minsheng Education Group Company Limited (1569)	31 December 2021	2,394,012	52%	57
Chen Lin Education Group Holdings Limited (1593)	31 August 2021	218,082	100%	38
China Vocational Education Holdings Limited (1756)	31 August 2021	881,656	100%	53
Hope Education Group Co., Ltd. (1765)	31 August 2021	2,324,272	86%	51
China Gingko Education Group Company Limited (1851)	31 December 2021	226,737	100%	46
China Kepei Education Group Limited (1890)	31 August 2021	671,295	100%	63
JH Educational Technology INC. (1935)	31 December 2021	684,596	100%	61
China Chunlai Education Group Co., Ltd. (1969)	31 August 2021	1,041,999	100%	61
China New Higher Education Group Limited (2001)	31 August 2021	1,497,455	100%	45
China General Education Group Limited (2175)	31 August 2021	289,262	100%	59
China Xinhua Education Group Limited (2779)	31 December 2021	565,386	100%	65
China YuHua Education Corporation Limited (6169)	31 August 2021	2,258,583	90%	67
South China Vocational Education Group Company Limited (6913)	31 December 2021	499,621	100%	40
Neusoft Education Technology Co. Limited (9616)	31 December 2021	1,363,126	75%	43
			Maximum	67
			Minimum	38
			Average	54
			The Group for FY2021	41.1
			Historical GP Margin for FY2021	52.5

We noticed from the above table that the gross profit margins of the Comparable Companies ranged from approximately 38% to 67% with an average of approximately 54%. The Historical GP Margin for FY2021 is within the said range.

In addition, the Historical GP Margin is higher than the Group's gross profit margin for FY2021.

In light of the above, we consider the Entrustment Fee to be fair and reasonable.

With reference to the 2021 Annual Report and as confirmed by the Directors, the independent non-executive Directors reviewed, amongst others, the Transaction conducted during FY2021 and confirmed that the Transaction was: (i) entered into in the

LETTER FROM GRAM CAPITAL

ordinary and usual course of business of the Group; (ii) conducted on normal commercial terms; and (iii) carried out according to the agreement governing it on fair and reasonable terms and in the interest of the Shareholders as a whole.

With reference to the 2021 Annual Report and as confirmed by the Directors, the Company's auditor was engaged to report on, amongst others, the Transaction conducted during FY2021 in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor reported to the Board that: (1) nothing had come to their attention that caused them to believe that the Transaction had not been approved by the Board; (2) nothing had come to their attention that caused them to believe that the Transaction was not, in all material respects, in accordance with the pricing policies of the Group; (3) nothing had come to their attention that caused them to believe that the Transaction was not entered into, in all material respects, in accordance with the relevant agreement governing the Transaction.

The Annual Caps

Set out below are (i) the historical transaction amount of the Transaction, together with the historical/existing annual caps and the respective utilisation rate; and (ii) the Annual Caps for the three years ending 31 December 2025:

	For the year ended 31 December 2020 RMB million	For the year ended 31 December 2021 RMB million	For the year ending 31 December 2022 RMB million
Historical/existing transaction amount	19.5	20.9	14.8 <i>(Note)</i>
Existing annual cap	24.0	24.0	24.0
Utilisation rate (%)	81.25	87.08	Undetermined
	For the year ending 31 December 2023 RMB million	For the year ending 31 December 2024 RMB million	For the year ending 31 December 2025 RMB million
Annual Caps	27.0	27.0	27.0

Note: The historical transaction amount was for the nine months ended 30 September 2022.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, the Annual Caps were determined with reference to (i) the historical amounts of the revenue generated from tuition from west campus of Sifang College; (ii) the reputation of Shijiazhuang Tiedao University and the capacity and quality of school facilities provided by Lionful Education to west campus of Sifang College for its operations; and (iii) the expected growth in number of students and tuition of west campus of Sifang College.

As illustrated in the above table, the utilisation rates of historical annual caps for the two years ended 31 December 2020 and 2021 were approximately 81.25% and 87.08% respectively. The historical annual caps have been substantially utilised.

For our due diligence purpose, we obtained the calculation of the estimated Entrustment Fee for each of the three years ending 31 December 2025 (the “**Calculation**”). The Calculation was based on (i) the expected number of student enrolments; (ii) the expected tuition fee per student; and (iii) Entrustment Fee percentage of 65%. Based on the Calculation, we noted that the number of student enrolments and the tuition fee per student were expected to remain constant for the three years ending 31 December 2025. The expected number of student enrolments for the three years ending 31 December 2025 represents an increase of approximately 10% as compared to the number of student enrolments covered by the Group’s entrusted management and operation services to the west campus of Sifang College as at 30 June 2022. Having considered the prospects of the higher education industry in the PRC (including Hebei Province), in particular, the increase in number of student enrolments in higher education institutions in Hebei Province, we are of the view that such estimated growth is justifiable.

According to the Calculation, the estimated Entrustment Fee was approximately RMB26 million for each of the three years ending 31 December 2025. The Annual Caps for each of the three years ending 31 December 2025 were set at RMB27 million to cater for unforeseeable circumstances which may lead to unexpected increase in student enrolments and/or tuition fee.

Having considered the above basis for determining the Annual Caps, we are of the view that the Annual Caps for the three years ending 31 December 2025 are fair and reasonable.

LETTER FROM GRAM CAPITAL

Shareholders should note that as the Annual Caps for the three years ending 31 December 2025 are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of revenue/income to be generated from the Transaction. Consequently, we express no opinion as to how closely the actual revenue/income to be generated from the Transaction will correspond with the Annual Caps.

Having considered the Entrustment Fee and the Annual Caps for the three years ending 31 December 2025 as aforementioned, we are of the view that the terms of the Transaction are on normal commercial terms and are fair and reasonable.

3. Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the value of the Transaction must be restricted by the Annual Caps for the period concerned under the 2023 Entrustment Agreement; (ii) the terms of the Transaction must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the 2023 Entrustment Agreement must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Transaction (i) has not been approved by the Board; (ii) was not conducted, in all material respects, in accordance with the pricing policies of the Group; (iii) was not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) has exceeded the Annual Caps. In the event that the total amounts of the Transaction exceed the Annual Caps, or that there is any material amendment to the terms of the 2023 Entrustment Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Transaction and thus the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GRAM CAPITAL

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transaction are on normal commercial terms and are fair and reasonable; and (ii) the Transaction is conducted in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Transaction and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures of the Company

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); (b) were recorded in the register required to be kept by the Company under Section 352 of the SFO; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Director	Nature of interest	Number of Shares ⁽⁶⁾	Approximate percentage of shareholding ⁽⁷⁾
Mr. Li ⁽¹⁾	Founder of a discretionary trust who can influence how the trustee exercises on his discretion	754,590,000 (L)	64.98%
	Beneficial owner	1,902,000 (L)	0.16%
	Beneficial owner	666,000 (L)	0.06%
	Beneficiary of a trust (other than a discretionary interest)	1,554,000 (L)	0.13%
Ms. Liu Hongwei ⁽²⁾	Beneficial owner	2,061,000 (L)	0.18%
	Beneficial owner	666,000 (L)	0.06%
	Beneficiary of a trust (other than a discretionary interest)	1,554,000 (L)	0.13%

Director	Nature of interest	Number of Shares ⁽⁶⁾	Approximate percentage of shareholding ⁽⁷⁾
Mr. Ren Caiyin ⁽³⁾	Beneficial owner	951,000 (L)	0.08%
	Beneficial owner	443,700 (L)	0.04%
	Beneficiary of a trust (other than a discretionary interest)	1,035,300 (L)	0.09%
Ms. Yang Li ⁽⁴⁾	Beneficial owner	951,000 (L)	0.08%
	Beneficial owner	443,700 (L)	0.04%
	Beneficiary of a trust (other than a discretionary interest)	1,035,300 (L)	0.09%
Mr. Li Yasheng ⁽⁵⁾	Beneficial owner	633,000 (L)	0.05%
	Beneficial owner	296,100 (L)	0.03%
	Beneficiary of a trust (other than a discretionary interest)	690,900 (L)	0.06%

Notes:

- (1) On 16 January 2020, the Company was informed by Mr. Li that he had transferred his 100% shareholding in Sainange Holdings to Leonus Holdings Limited (“**Leonus**”) for family wealth and succession planning purposes. After the shareholding transfer, the family trust to established by Mr. Li indirectly, through Leonus, holds 754,590,000 Shares held by Sainange Holdings. Mr. Li was therefore deemed to be interested in the Shares held by Sainange Holdings by virtue of the SFO, being 754,590,000 Shares. For details, please refer to the announcement of the Company dated 21 January 2020. On 5 November 2020, 1,902,000 share options, representing 1,902,000 underlying Shares, were granted to Mr. Li pursuant to the Share Option Scheme. For details, please refer to the announcement of the Company dated 5 November 2020. On 29 December 2020, 2,220,000 award shares were granted to Mr. Li pursuant to the Share Award Plan, subject to the vesting conditions under the grant, of which 666,000 award shares had vested on 29 December 2021. For details, please refer to the announcement of the Company dated 29 December 2020.
- (2) On 5 November 2020, 2,061,000 share options, representing 2,061,000 underlying Shares were granted to Ms. Liu Hongwei under the Share Option Scheme. On 29 December 2020, 2,220,000 award shares were granted to Ms. Liu Hongwei pursuant to the Share Award Plan, of which 666,000 award shares had vested on 29 December 2021.
- (3) On 5 November 2020, 951,000 share options, representing 951,000 underlying Shares were granted to Mr. Ren Caiyin under the Share Option Scheme. On 29 December 2020, 1,479,000 award shares were granted to Mr. Ren Caiyin pursuant to the Share Award Plan, of which 443,700 award shares had vested on 29 December 2021.
- (4) On 5 November 2020, 951,000 share options, representing 951,000 underlying Shares were granted to Ms. Yang Li under the Share Option Scheme. On 29 December 2020, 1,479,000 award shares were granted to Ms. Yang Li pursuant to the Share Award Plan, of which 443,700 award shares had vested on 29 December 2021.
- (5) On 5 November 2020, 633,000 share options, representing 633,000 underlying Shares were granted to Mr. Li Yasheng under the Share Option Scheme. On 29 December 2020, 987,000 award shares were granted to Mr. Li Yasheng pursuant to the Share Award Plan, of which 296,100 award shares had vested on 29 December 2021.
- (6) The letter (L) denotes a long position in such securities.
- (7) As at the Latest Practicable Date, the number of the issued shares of the Company was 1,161,204,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had or were deemed to have any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or required to be recorded in the register to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(ii) Substantial Shareholders' and other persons' interests and short positions in Shares and underlying Shares of the Company

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (other than Directors and chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO and are recorded in the register kept by the Company under Section 336 of the SFO:

Name	Nature of interest	Number of Shares and underlying Shares ⁽⁵⁾	Approximate percentage of shareholding ⁽⁶⁾
Ms. Cao Yang ⁽³⁾	Spouse interest	758,712,000 (L)	65.34%
Sainange Holdings	Beneficial owner	754,590,000 (L)	64.98%
Leonus	Interest in a controlled corporation	754,590,000 (L)	64.98%
HSBC International Trustee Limited ⁽¹⁾	Trustee	754,590,000 (L)	64.98%
Ms. Luo ⁽²⁾⁽⁴⁾	Interest in a controlled corporation	92,736,000 (L)	7.99%
Mr. Cao Jide ⁽⁴⁾	Spouse interest	92,736,000 (L)	7.99%
Sainray Limited	Beneficial owner	92,736,000 (L)	7.99%

Notes:

- (1) Mr. Li is the founder of a trust of which HSBC International Trustee Limited is the trustee having control over the entire issued shares of Leonus, which in turn holds the entire issued shares of Sainange Holdings. Each of Mr. Li, HSBC International Trustee Limited and Leonus is deemed to be interested in the 754,590,000 Shares held by Sainange Holdings by virtue of the SFO.
- (2) Ms. Luo is the sole shareholder of Sainray Limited and she is therefore deemed to be interested in the Shares held by Sainray Limited by virtue of the SFO, being 92,736,000 Shares.
- (3) Ms. Cao Yang is the spouse of Mr. Li and she is therefore deemed to be interested in the Shares in which Mr. Li is interested by virtue of the SFO, being 758,712,000 Shares.
- (4) Mr. Cao Jide is the spouse of Ms. Luo and he is therefore deemed to be interested in the Shares in which Ms. Luo is interested by virtue of the SFO, being 92,736,000 Shares.
- (5) The letter (L) denotes a long position in such securities.
- (6) As at the Latest Practicable Date, the number of the issued shares of the Company was 1,161,204,000 Shares.

Save as disclosed above, as at the Latest Practicable Date, none of the substantial or significant Shareholders or other persons, other than the Directors and chief executive of the Company whose interest are set out in the section above, had any interest or a short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

3. INTEREST OF DIRECTORS IN COMPETING BUSINESS

On 27 May 2020, the Company renewed the entrustment agreement entered into between Shijiazhuang Institute of Technology and Hebei Lionful Education Investment Co., Ltd.* (河北廿一世紀教育投資有限公司) (“**Lionful Education**”) on 21 June 2010. For details, please refer to the announcement of the Company dated 27 May 2020. In addition, the Company, was notified by Mr. Li in May 2020 that Lionful Education, which is effectively controlled by him and Ms. Luo, has acquired Shijiazhuang Peisen Education Technology Co., Ltd.* (石家莊培森教育科技有限公司). Shijiazhuang Peisen Education Technology Co., Ltd.* owns Shijiazhuang High-tech Zone Zhangjiu Center Kindergarten Co., Ltd.* (石家莊高新區長九中心幼兒園有限責任公司), Shijiazhuang Shiguang Kindergarten Co., Ltd.* (石家莊時光幼兒園有限公司), Shijiazhuang Yuhua Saintach Zhongmei Kindergarten* (石家莊市裕華區新天際眾美幼兒園), Shijiazhuang Qiaoxi Yingjia Kindergarten Co., Ltd.* (石家莊橋西區盈嘉幼兒園有限公司) and Shiji Chengbao Angli Kindergarten*, Haigang District, Qinhuangdao (秦皇島市海港區世極城堡昂立幼兒園). However, owing to the fact that the coverage of the kindergarten business of Shijiazhuang Peisen Education Technology Co., Ltd.* is relatively smaller, the resulting business competition with the Group is limited. Moreover, according to the Certain Opinions of the CPC Central Committee and the State Council on Deepening the Reform and Regulating the Development of Preschool Education (《中共中央、國務院關於學前教育深化改革規範發展的若干意見》) authorized to release by Xinhua News Agency in November 2018, the Company will no longer expand the physical premises of kindergartens. Owing to this, Hebei Sheng Dao Xiang Cheng Education and Technology Co., Ltd.* (河北晟道象成教育科技有限公司) has issued a confirmation letter, stating that it agreed to the acquisition of Shijiazhuang Peisen Education Technology Co., Ltd.* by Lionful Education to commence the kindergarten business. Save as disclosed and as at the Latest Practicable Date, the Directors were not aware that any of them or any of their respective close associates had interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would fall to be discloseable under the Listing Rules.

4. DIRECTORS' INTEREST IN ASSET AND CONTRACTS OF THE GROUP

As at the Latest Practicable Date, save as those disclosed in the section headed “Disclosure of Interests” above, the assets restructuring agreement dated 20 November 2020 entered into between Shijiazhuang Institute of Technology and Lionful Education in relation to acquisition of five dormitory buildings by the Group for a total consideration of RMB105,000,000, the lease agreement dated 20 November 2020 entered into between Shijiazhuang Institute of Technology (as lessee) and Lionful Education (as lessor) with respect to (i) five dormitory buildings; (ii) one auto training centre; (iii) one canteen; (iv) one infirmary; and (v) a library, at the annual rent of RMB3,700,000 (inclusive of ancillary facilities usage fees, equipment fees, management fees and

maintenance fees) for a term of five years, and other connected transactions as disclosed in the annual report of the Company for the year ended 31 December 2021, none of the Directors (i) was interested, directly or indirectly, in any assets which, since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up, had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice for inclusion in this circular:

Name	Qualifications
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

Gram Capital has given and have not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice or references to its name in the form and context in which it respectively appears.

As at the Latest Practicable Date, Gram Capital did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2021 (the date to which the latest published audited consolidated financial statements of the Company were made up) or proposed to be acquired, disposed of or leased to.

9. CORPORATE INFORMATION OF THE COMPANY

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in the PRC	8th Floor Zhongdian Information Building No. 356 Zhongshan West Road Qiaoxi District Shijiazhuang City Hebei Province, the PRC
Principal place of business in Hong Kong	31/F, Tower Two Times Square 1 Matheson Street Causeway Bay, Hong Kong
Cayman Islands share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar	Tricor Investor Services Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong
Joint Company Secretaries	Mr. Yang Yang Mr. Leung Chi Kit (associate of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom)

10. DOCUMENTS ON DISPLAY

Copy of the following document is published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.21centuryedu.com>) during the period of 14 days from the date of this circular:

- (a) the 2023 Entrustment Agreement.

NOTICE OF EGM



21世紀教育
21ST CENTURY EDUCATION

China 21st Century Education Group Limited

中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1598)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**EGM**”) of China 21st Century Education Group Limited (the “**Company**”) will be held at 15/F, South Tower, Zhonghai Plaza, 8 Guanghua Dongli, Chaoyang District, Beijing, the PRC on Friday, 23 December 2022 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

1. **“THAT:**

- (a) the execution of the entrustment agreement dated 8 November 2022 (the “**2023 Entrustment Agreement**”) (copy of which has been produced to the EGM marked “A” and signed by the Chairman of the EGM for identification purpose) entered into between Hebei Lionful Education Investment Co., Ltd.* (河北廿一世紀教育投資有限公司) and Shijiazhuang Institute of Technology* (石家莊理工職業學院) by any director(s) of the Company be and is hereby approved, confirmed and ratified; and
- (b) any director(s) of the Company be and is hereby authorized to sign, execute, perfect and deliver all such documents and to affix the common seal of the Company on any such document as and when necessary and do all such deeds, acts, matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with the implementation of the 2023 Entrustment Agreement, the transactions contemplated thereunder and the corresponding proposed annual caps for the three financial years ending 31 December 2025.”

Yours faithfully

For and on behalf of the Board

China 21st Century Education Group Limited

Li Yunong

Chairman

Hong Kong, 6 December 2022

NOTICE OF EGM

Registered office:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:

31/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay, Hong Kong

Notes:

1. A member entitled to attend and vote at the EGM is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the Memorandum of Association and Articles of Association of the Company, to vote on his/her behalf. A proxy need not be a member of the Company but must be present in person at the EGM to represent the member. If more than one proxy is so appointed, the appointment shall specify the number of shares in respect of which each such proxy is so appointed.
2. Where there are joint holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
3. A proxy form for use at the EGM is enclosed. Whether or not you intend to attend the EGM in person, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon.
4. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or if the appointer is a corporation, either under its common seal or under the hands of any officer or attorney duly authorised.
5. In order to be valid, the proxy form, together with a power of attorney or other authority, if any, under which it is signed, or a notorially certified copy of such power or authority must be deposited at the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be).
6. Completion and return of a proxy form shall not preclude a member from attending and voting in person at the EGM or any adjournment thereof (as the case may be) and, in such event, the proxy form appointing a proxy shall be deemed to be revoked.
7. For determining the entitlement to attend and vote at the above meeting, the register of members of the Company will be closed from Tuesday, 20 December 2022 to Friday, 23 December 2022 (both dates inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Monday, 19 December 2022.

NOTICE OF EGM

8. Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting for the resolution set out in this notice will be taken by poll at the above meeting.

As at the date of this notice, the executive directors of the Company are Mr. Li Yunong, Ms. Liu Hongwei, Mr. Ren Caiyin, Ms. Yang Li and Mr. Li Yasheng; and the independent non-executive directors of the Company are Mr. Guo Litian, Mr. Yao Zhijun and Mr. Wan Joseph Jason.