

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Our business strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive gross proceeds from the Global Offering of approximately HK\$950.0 million and net proceeds from the Global Offering of approximately HK\$821.2 million after deducting underwriting commission and other estimated expenses paid and payable by us in the Global Offering (without deducting any additional discretionary incentive fee), assuming an Offer Price of HK\$5.70 per Share, being the mid-point of the indicative Offer Price Range of HK\$5.18 to HK\$6.22 per Share (assuming the Over-allotment Option is not exercised). We expect to incur a total of RMB113.6 million (equivalent to approximately HK\$128.8 million) of Listing Expenses, accounting for approximately 13.6% of our gross proceeds from the Global Offering. We intend to use the net proceeds we will receive from the Global Offering for the following purposes:

- approximately 50% (approximately HK\$410.6 million) to be applied towards upgrading our existing school facilities and expanding our campus. Below is a summary of our upgrade and expansion plans by the end of 2021.

Upgrade and expansion plan	Expected completion date	Total construction cost*/capital expenditure	Estimated total cost		Amount spent as of 30 April 2020	Additional number of students expected to be accommodated by the end of 2021	Additional number of students expected to be accommodated upon completion	Estimated depreciation charges from 2020 to 2024
			as of the end of 2021	as of the end of 2020				
Dalian University Practical training base ⁽¹⁾	October 2021	RMB396.5 million	RMB378.2 million	RMB90.0 million	—	—	RMB37.7 million	
	December 2022	RMB871.4 million	RMB610.0 million	—	5,046	8,014	RMB41.2 million	
Chengdu University Library and playground	July 2021	RMB83.1 million	RMB83.1 million	RMB48.7 million	—	—	RMB8.5 million	
	August 2023	RMB600.4 million	RMB220.8 million	RMB11.6 million	2,500	5,000	RMB22.1 million	
Foshan University Student dormitory building	September 2020	RMB59.3 million	RMB59.3 million	RMB25.7 million	1,572 (by September 2020)	1,572	RMB7.7 million	
	August 2022	RMB316.7 million	RMB193.5 million	—	1,500	3,800	RMB25.3 million	

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Notes:

- * For Dalian University, the estimated total amount of construction costs for the expansion plans is RMB1,267.8 million. We plan to finance the constructions by obtaining bank loans of RMB1,235.0 million and using our own funds for the remaining construction costs.
- For Chengdu University, the estimated total amount of construction costs for the expansion plans is RMB683.5 million. We plan to finance the constructions by applying a proceed of RMB225.0 million from the Global Offering, obtaining bank loans of RMB440.0 million and using our own funds for the remaining construction costs.
- For Foshan University, the estimated total amount of construction costs for the expansion plans is RMB376.0 million. We plan to finance the constructions by applying a proceed of RMB137.2 million from the Global Offering, obtaining bank loans of RMB145.0 million and using our own funds for the remaining construction costs.
- (1) The new practical training base will be used to offer practical training courses to students of our newly established healthcare related programmes. Such courses will be offered by cooperating with enterprises. For example, cooperating enterprises may provide equipment and facilities for the practical training and may also dispatch their employees to Dalian University to provide support and guidance for the practical trainings.
 - (2) For more information on the land recently acquired, please see “Business — Properties — Owned properties — Land”.

Upon the completion of the above expansion plan, Dalian University is expected to accommodate an additional 8,014 students, Chengdu University is expected to accommodate an additional 5,000 students, and Foshan University is expected to accommodate an additional 5,372 students, representing an increase in school capacity of 47.6% for Dalian University, 46.0% for Chengdu University, and 51.5% for Foshan University, compared to the school capacity in each corresponding school for the 2019/2020 school year. Such increases in school capacity have not taken into account a new student dormitory building that Chengdu University established in August 2020. Such student dormitory building is able to accommodate 2,000 students. In addition to the above expansion plan, depending on the actual situation of our future development, we may have additional expansion plans in the future or may adjust our existing expansion plans in the future that are not yet completed by then. Our Directors are of the view that we will be able to obtain approval from the relevant authorities for admitting additional students in each of our three universities upon completion of the expansion plan, because (i) the relevant authorities of the provinces where our three universities are located at support the development of private higher education and our three universities are recognised by relevant government authorities and the society, which are conducive to our expansion in student admission in the future, (ii) government authorities are supporting higher education’s expansions in student admission, for example, according to the *2020 Report on the Work of the Government*, student enrolments in higher vocational colleges in China will increase by two million persons in 2020 and 2021, and (iii) our three universities focus on IT related majors and healthcare technology related majors, which fall within the category that the government authorities of the provinces where our universities are located at support student admission expansions.

We treat each construction or upgrade projects as a part of our overall expansion plan and assess the soundness and effectiveness of the construction or upgrade projects holistically on our overall school operations level. When we formulate expansion plans, we primarily consider the impacts of such investments in expansions on our overall business operations and financial performance. In terms of business operations, we do a necessity analysis before making investments in expansions. We primarily consider whether such investments are commensurate with the offering

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of new majors, conducive to our student enrolment, improvement of our education quality and talent cultivation system, and our compliance with relevant regulatory requirements. With respect to our financial performance, we consider the impact of the investments in expansions on our cash flows, our funding costs of financing for such expansion and the impact on depreciation and amortisation after completion of the construction or upgrade projects so that we will continue to be profitable as a whole in the future.

For the construction of new campus in Dalian University, we expect to take 2.5 years to complete the construction. The expected breakeven period, which refers to the period of time required for a school to generate revenue equal to its cost of sales and operating expenses for the first time, for such expansion is one to two years. The expected investment payback period is approximately nine to ten years. For the construction of new campus in Chengdu University, we expect to take three years to complete the construction. The expected breakeven period for such expansion is one to two years. The expected investment payback period is approximately eight to nine years. For the campus expansion in Foshan University, we expect to take two years to complete the construction. The expected breakeven period for such expansion is one year. The expected investment payback period is approximately four to five years. The principal assumptions we made when calculating the expected breakeven period for a school include the tuition fees and boarding fees the school currently expects to charge for each student in each school year, the number of new students the school expects to enrol in each school year, subject to the relevant student admissions quota approved by the relevant education authorities, the cost of sales and other operating expenses the school expects to incur when providing education services to students and the estimated tax liabilities the school anticipates to be exposed to. In addition, we assume all other factors remain constant, the actual investment and construction costs of these schools will not materially deviate from the expected amounts, and we take into account the financial resources available to us.

According to the Frost & Sullivan Report, it is estimated that the total number of student enrolments in IT majors in private higher education in China will increase at a CAGR of 11.0% from 2018 to 2023, which we believe, together with the following factors, will create sufficient demand for our expansion plan.

Market potential. The IT industries in China are expected to continue to grow, driven primarily by innovations in technology, industry demand and favourable government policies. According to the Frost & Sullivan Report, the market size of the software and IT service industry in China in terms of revenue is expected to reach RMB13.0 trillion in 2024, representing a CAGR of 12.5% from 2019. As the development of higher IT education in China lags behind the rapid growth of the software and IT service industry in China, there is a significant supply-demand gap for IT talents with practical skillsets. According to “The Guidelines for the Planning of Talent Development in Manufacturing” (“製造業人才發展規劃指南”) jointly promulgated by the MOE, the Ministry of Human Resources and Social Security of the People’s Republic of China (中華人民共和國人力資源和社會保障部) and MIIT, it is estimated that total demand for the new-generation of IT talents would reach 20.0 million persons by 2025, with an expected shortage in supply of 9.5 million persons. Thus, we believe that the IT higher education industry has growth potentials. Leveraging our leading position in the IT

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higher education industry in China, we will formulate reasonable student enrolment expansion plans to seize the opportunities.

Student enrolment strategies. In terms of student enrolment strategies, we have been closely keeping track of the changes in the size of the population at the appropriate age for higher education in major provinces where we enrol students and making adjustments to student enrolment strategies accordingly to ensure our student enrolment covers the provinces with a high demand for higher education services. Taking Dalian University as an example, there has been no substantial growth in the size of the population at the appropriate age for higher education in Liaoning province in recent years. In response to such trend, Dalian University adjusted its student enrolment strategies a few years ago by shifting its student admission focus from Liaoning province to other provinces. In the 2019/2020 school year in Dalian University, there has been 66% of the students enrolled from provinces other than Liaoning province. The student enrolment focus of Foshan University and Chengdu University is still in their respective local provinces as the populations in Guangdong province and Sichuan province have been increasing in recent years.

When we adjust our geographical student enrolment strategies, we primarily consider (i) the number of populations and demand for higher education in each province, (ii) student enrolments in previous years in each province, and (iii) the development of IT industries in each province.

As indicated by the latest *2018 National Statistical Report on Education Development*, the gross student enrolment rate for higher education in China as of 2018 was 48.1%. Pursuant to the *Thirteenth Five-Year Plan on National Education Development*, the gross student enrolment rate for higher education is targeted to reach 50% by 2020. To achieve such target, government authorities have been encouraging expansions in student enrolments these years. For example, according to the *2020 Report on the Work of the Government*, student enrolments in higher vocational colleges in China will increase by two million persons in 2020 and 2021. On the provincial level, the gross student enrolment rate for higher education in Liaoning province has been higher than 50% in recent years, but the same rate was only 42.43% in Guangdong province and 40.93% in Sichuan province by the end of 2018. Therefore, Dalian University's student enrolments have been focused on other provinces while the student enrolments for Foshan University and Chengdu University are still focused on their local provinces.

In addition, we consider our student enrolment statistics in each province in the previous years and allocate student enrolment quota to each province accordingly. For example, if we were unable to enrol sufficient numbers of qualified students in certain provinces in previous years, we will allocate lower quotas to those provinces when we formulate student enrolment plans each year. We also take into account the quality of prospective students in each province, such as their scores in college entrance exams, when we allocate quota in each province.

We also take into account the development of IT industries in each province. For example, the governments of the provinces where our three universities are located support the development of IT

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industries, which is conducive to IT education and graduate employment in those provinces. We also assess the development of IT industries in other provinces, such as the market demand for IT professionals, and allocate more quota for provinces with developed IT industries or development potentials in IT industries.

Competitive advantages. We have a leading position in the private IT higher education industry in China and are able to provide featured high-quality education services. We believe that high-quality education services with unique features are the key to realise expansion in student enrolments. After two decades of school operations, we have become a leading IT higher education services provider and are able to provide high-quality education services with unique features through, among others, (i) focusing on the IT industry, (ii) creating TOPCARES integrated education approach, (iii) establishing unique SOVO innovation and entrepreneur education system, (iv) carrying out in-depth cooperation with enterprises, and (v) offering international programmes. Our leading position and competitive advantages in providing high-quality IT education services have been proven by high admission scores of our universities. For example, in the 2019/2020 school year, Dalian University ranked the first among all private universities (exclusive of independent colleges) in Liaoning province in terms of the admission scores of both science stream and liberal arts stream, Chengdu University ranked the fourth in terms of the admission scores of both science stream and liberal arts stream among all private universities (exclusive of independent colleges) in Sichuan province, and Foshan University ranked the first in terms of the admission scores of science stream and the third in terms of the admission scores of liberal arts stream among all private universities (exclusive of independent colleges) in Guangdong province.

Future efforts. Sticking to the student-centric approach, we will further improve the quality and the unique features of our education services and our brand recognition. In addition, we will further promote our universities to prospective students in major provinces in China where we enrol students and designate student admission personnel to coordinate and cooperate directly with our targeted high schools in such provinces striving to enrol well-qualified students for our universities. In the meanwhile, we will continue to closely monitor the changes in the market trend and government policies in major provinces where we enrol students and timely adjust our business strategies to ensure our expansion plan can be realised.

- approximately 20% (approximately HK\$164.2 million) to be applied towards the acquisition of other universities/colleges in China to expand our school network. As of the Latest Practicable Date, we had yet to identify any definitive acquisition target or confirmed the number of schools to be acquired or the timeframe involved. We had yet to enter into any legally binding agreement with respect to the acquisition of, or cooperation with, other universities. We are in the preliminary stage of prospecting potential opportunities and have yet to complete any concrete feasibility studies. Our Directors intend to continue to assess potential acquisition targets and identify the targets in accordance with the following criteria: (i) located in the Second-tier Cities and Third-tier Cities primarily in East China, Central China and Northeastern China where there is a good general economic condition, well-developed industries, significant labour market demand, and the government of which supports the development of the IT industry; (ii) with high education quality and efficient management; (iii) with

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a total number of students enrolled not less than 9,000; and (iv) matching our development strategies, especially the schools that fit our current and future development of major and curriculum offerings, such as universities/colleges offering undergraduate programmes or junior college programmes with comprehensive course offerings or focusing on science and technology, or with particular strength in IT education and/or healthcare education so that we can further improve their education quality by utilising our education resources. According to the Frost & Sullivan Report, 590 out of 756 private higher education institutions were located in the Second-tier Cities and Third-tier Cities as of 30 June 2019, more than 80 of which had a total number of students enrolled of not less than 9,000, and the private higher education markets in the Second-tier Cities and Third-tier Cities are fragmented with no dominant players. According to the Frost & Sullivan Report, considering the economic development conditions and talents demand and as evidenced by the number of private higher education institutions, the Second-tier Cities and Third-tier Cities have a strong demand for higher education, especially for IT education;

- approximately 20% (approximately HK\$164.2 million) to repay the following loans we borrowed previously from commercial banks:

<u>Bank</u>	<u>Outstanding amount</u>		<u>Interest rate</u>	<u>Maturity date</u>	<u>Usage</u>
	<u>as of 31 July 2020</u>				
Industrial Bank	RMB14.97 million		4.9875%	25 June 2021	Working capital loan
Industrial Bank	RMB14.97 million		4.9875%	26 June 2021	Working capital loan
Bank of Chengdu	RMB50 million		4.75%	28 May 2021	Working capital loan
Bank of Chengdu Shanghai Pudong Development Bank	RMB50 million		4.75%	17 June 2021	Working capital loan
	RMB80 million		4.5675%	13 January 2021	Working capital loan

- approximately 10% (approximately HK\$82.2 million) to supplement our working capital and be used for general business operations.

In the event that the Offer Price is set at the high point or the low point of the indicative Offer Price Range, the net proceeds of the Global Offering will increase or decrease by approximately HK\$83.2 million, respectively. Under such circumstances, we will increase or decrease the allocation of the net proceeds to the above purposes on a pro-rata basis (other than the repayment of the bank loans).

If the Over-allotment Option is exercised in full, the additional net proceeds that we will receive will be approximately HK\$136.8 million, assuming an Offer Price of HK\$5.70 per Share, being the mid-point of the proposed Offer Price Range. If the Over-allotment Option is exercised in full, we intend to apply such additional net proceeds for the above uses on a pro-rata basis (other than the repayment of the bank loans).

To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes or if we are unable to put into effect any part of our development plan as intended, we may hold such

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funds in short-term deposits so long as it is deemed to be in the best interests of our Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

Since we are an offshore holding company, we will need to make capital contributions and loans to our PRC subsidiaries or through loans to our Consolidated Affiliated Entities such that the net proceeds of the Global Offering can be used in the manner described above. However, such capital contributions and loans are subject to applicable government registration and approval processes under PRC Laws. We cannot assure you that we will be able to obtain these registrations or approvals on a timely basis, if at all. See “Risk Factors — Risks relating to doing business in China” for more information.