Gram Capital Limited
嘉林資本有限公司

29 November 2021

To: The Independent Board Committee and the Independent Shareholders of China 21st Century Education Group Limited

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION
ACQUISITION OF PROPERTIES

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 Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 29 November 2021 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.

With reference to the Board Letter, on 5 November 2021 (after trading hours), Shijiazhuang Institute of Technology (an indirect wholly-owned subsidiary of the Company) entered into the Assets Restructuring Agreement with Lionful Education, pursuant to which Shijiazhuang Institute of Technology shall acquire the Properties (including the Currently Leased Properties) from Lionful Education at the total consideration of RMB310.0 million.

With reference to the Board Letter, the Acquisition constitutes major and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Guo Litian, Mr. Yao Zhijun and Mr. Wan Joseph Jason, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Acquisition are on normal commercial terms and are fair and reasonable; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of the business

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of the Company; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Acquisition 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 continuing connected transactions of the Company as contained in the Company's circular dated 17 June 2020; and (ii) the discloseable and connected transactions as contained in the Company's circular dated 14 December 2020. 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.

Having considered that (i) none of the circumstances as set out under the Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagements were only independent financial adviser engagements and will not affect our independence to act as the Independent Financial Adviser, we are of the view that we are independent to act as the Independent Financial Adviser.

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 Acquisition. 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.

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We have not made any independent evaluation or appraisal of the Properties, and we have not been furnished with any such evaluation or appraisal, save as and except for the valuation report on the Properties (the "**Valuation Report**") as set out in Appendix IV to the Circular, as prepared by the Valuer. Since we are not experts in the valuation of land and property, we have relied solely upon the Valuation Report for the value of the Properties.

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 herein 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, the Purchaser, Lionful Education or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. 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 Acquisition, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Group is primarily serving a wide range of students from preschool students in its kindergartens, to primary school, middle school and high school students in its tutorial centers, to junior college and continuing education students in its college.

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Set out below are the financial information of the Group for the two years ended 31 December 2020 as extracted from the Company's annual report for the year ended 31 December 2020 (the "**2020 Annual Report**") and for the six months ended 30 June 2021 as extracted from the Company's interim report for the six months ended 30 June 2021 (the "**2021 Interim Report**"):

	For the six months ended 30 June 2021	**For the year ended 31 December 2020**	**For the year ended 31 December 2019**	**Change from 2019 to 2020**
	(unaudited)	*(audited)*	*(audited)*	
	RMB'000	*RMB'000*	*RMB'000*	*%*
Revenue	157,999	253,802	234,242	8.35
— *Vocational education*	90,787	152,806	141,028	8.35
— *Quality-oriented education*	67,212	100,996	93,214	8.35
Gross profit	80,958	122,285	121,308	0.81
Profit for the period/year	44,156	78,772	82,753	(4.81)

As illustrated in the above table, the Group's revenue amounted to approximately RMB253 million for the year ended 31 December 2020 ("**FY2020**"), representing an increase of approximately 8.35% as compared with that for the year ended 31 December 2019 ("**FY2019**"). With reference to the 2020 Annual Report, such increase in revenue was mainly due to the increase in student enrollment of the Shijiazhuang Institute of Technology and the increase in revenue after the acquisition of Zhejiang Peijian and Shinedao Tutorial Schools.

The Group's gross profit for FY2020 only increased by approximately 0.81% as compared to that for FY2019. With reference to the 2020 Annual Report, the Group's gross profit margin dropped from approximately 51.79% for FY2019 to approximately 48.18% for FY2020, mainly due to the decline of the overall gross profit margin as a result of the decrease in gross profit from the quality-oriented education segment under the influence of the "COVID-19" epidemic.

The Group's profit for FY2020 amounted to approximately RMB79 million, representing a decrease of approximately 4.81% as compared with that for FY2019. We noted from the 2020 Annual Report that such decrease was mainly due to substantial increase in administrative expenses.

With reference to the 2021 Interim Report, the Group will set its new focus on vocational education in the future based on Shijiazhuang Institute of Technology and diversify its continuing education products. In the future, it will operate vocational high schools, conduct vocational trainings and extend to lifelong education, with the ultimate goal of becoming a comprehensive service provider of new vocational education. The Group will perform its social responsibilities through revitalizing the development in rural areas and ensuring the balanced development of education levels.

Information on Shijiazhuang Institute of Technology (the Purchaser)

With reference to the Board Letter, Shijiazhuang Institute of Technology (the Purchaser) is a junior college established under the laws of the PRC on 1 July 2003, and is one of the PRC Operating Entities and 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.

Information on the Lionful Education (the Vendor)

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 by Mr. Li and Ms. Luo. Accordingly, Lionful Education is an associate of Mr. Li and Ms. Luo and a connected person of the Company.

Information on the Properties

With reference to the Board Letter, the Properties comprise one library, one auto training centre, four canteens and six dormitory buildings (including the Currently Leased Properties) located at Hengshan Village, Luquan District Development Zone, Shijiazhuang City, Hebei Province, the PRC with an aggregate area of 82,267.09 sq.m. and the land use right with area of 157,639.25 sq.m.. Part of the Properties comprise the Currently Leased Properties, which are currently leased to the Group for support of the Group's operation. Upon Completion, the Currently Leased Properties will continue to be used by the Group for the current purpose.

Reasons for and benefits of the Acquisition

With reference to the Board Letter, the entering into of the Assets Restructuring Agreement is necessary for the operation of the businesses of the Group and is beneficial to the Group as the Acquisition (i) would benefit the Group's operating position by reducing its rental expenses; (ii) expand the Group's assets portfolio; (iii) further provide its students with more school assets as the Properties consist of, among others, canteens, library, dormitory buildings and ancillary facilities such as heating facilities that are necessary for the provision of education services; and (iv) can fully utilize the school assets and resource allocation more effectively.

In addition, as Shijiazhuang Institute of Technology is currently a junior college which cannot provide undergraduate courses to its students, the Acquisition would allow Shijiazhuang Institute of Technology to expand the scale of its facilities, and progress towards meeting some of the major qualification requirements for upgrading from a junior college to a vocational university that offers undergraduate programs. Furthermore, the Acquisition can also reduce related connected transactions and ensure the independence of the Company in carrying out its daily business activities, which is in line with the Group's long-term strategies.

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Having considered that (i) the Properties are used for library, auto training centre, canteens and dormitory of Shijiazhuang Institute of Technology under its business operation; (ii) the Acquisition aligns with the Group's long-term strategies; and (iii) the Acquisition can facilitate the Group's business development, we concur with the Directors that the Acquisition are conducted under the ordinary and usual course of the business of the Company and in the interests of the Company and its Shareholders as a whole.

1. Principal terms of the Assets Restructuring Agreement

Summarised below are the principal terms for the Assets Restructuring Agreement, details of which are set out under the section headed "THE ACQUISITION" of the Board Letter.

Date:

5 November 2021

Parties:

(i) Shijiazhuang Institute of Technology, as the Purchaser; and

(ii) Lionful Education, as the Vendor

Assets to be acquired

Pursuant to the Assets Restructuring Agreement, the Vendor agreed to sell, and the Purchaser agreed to purchase the Properties.

Consideration

The total consideration of the Properties is RMB310 million, among which RMB200 million is for the relevant buildings and ancillary facilities (including but not limited to heating facilities and storage tanks), and RMB110.0 million is for the land use right. The Consideration is payable in three tranches into a bank account of the Vendor in the manner as set out under the subsection headed "THE ACQUISITION — Consideration" of the Board Letter.

The independent valuation of the Properties as at 30 September 2021 was approximately RMB310,380,000 (the "**Valuation**") as prepared by the Valuer in accordance with depreciated replacement cost approach. The valuation of the library is for reference purpose based on the assumption that the library could be freely transferred in the market (according to the Valuation Report, (i) in undertaking valuation, the Valuer assigned no commercial value to the library since it has not obtained valid title certificates; (ii) pursuant to a confirmation letter issued by the Housing and Urban-rural Development Bureau of Luquan District, Shijiazhuang City (the "**Bureau**") dated 3 January 2017, the Bureau will not impose any penalties on the Vendor for not obtaining building ownership certificate, the Vendor can continue to use the relevant property and there is no legal impediment for the Vendor in obtaining the certificate;

and (iii) for reference purpose, the Valuer is of the opinion that the estimated value of the library as at the valuation date would be approximately RMB26 million, assuming the library obtained valid title certificates and could be freely transferred in the market.).

Pursuant to the Assets Restructuring Agreement, the employment of 56 staff currently working in the Properties with the Vendor shall be transferred with the same employment terms to the Purchaser before Completion. The Purchaser shall also assume the payment obligation of the Vendor over the outstanding construction fee payable in the amount of RMB2,879,821.67 in relation to the Properties. The staff salary and outstanding construction fee amounted to a total of RMB2,993,721.67 (i.e. the Outstanding Fees), which will be deducted from the Consideration.

The Valuation Report

To assess the fairness and reasonableness of the Consideration, we obtained the Valuation Report prepared by the Valuer. As aforementioned, the Valuation as at 30 September 2021 was approximately RMB310,380,000, including the valuation of the library (approximately RMB26 million) which is for reference only based on the assumption that the library could be freely transferred in the market.

According to the Valuation Report, in undertaking valuation, the Valuer assigned no commercial value to the library since it has not obtained valid title certificates. For reference purpose, the Valuer is of the opinion that the estimated value of the library as at the valuation date would be approximately RMB26 million, assuming the library obtained valid title certificates and could be freely transferred in the market.

Details of the Valuation Report are set out in Appendix I to the Circular.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for preparing the Valuation Report. From the mandate letter and other relevant information provided by the Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Valuer as well as their qualification for preparation of the Valuation Report. The Valuer also confirmed that they are independent to the Group and the Vendor.

The Valuation Report was prepared by the Valuer by depreciated replacement cost of the Properties. Upon our enquiry, the Valuer advised us that, due to the nature of the buildings and structures of the Properties, there are no market sales comparables readily available. The Valuer valued the Properties on the basis of its depreciated replacement cost. It is based on an estimation of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. As confirmed by the Valuer, market approach and income approach are other commonly adopted approaches for valuation of properties. Nevertheless, as there is lack of market transaction and information for both approaches due to the nature of the Properties, such approaches were not selected for the Valuation.

We further reviewed and enquired into the Valuer on the methodology adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report. During our discussion with the Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

Having considered (i) the Consideration is slightly lower than the Valuation; (ii) our independent work performed on the Valuation Report; and (iii) that Outstanding Fees will be deducted from the Consideration, we are of the view that the Consideration is fair and reasonable.

Taking into account the principal terms of the Assets Restructuring Agreement, we consider that the terms of the Acquisition are fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) the Acquisition is conducted in the ordinary and usual course of the business of the Company and is 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 Acquisition 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*

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