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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 20-F**

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(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019.

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report \_\_\_\_\_

Commission file number: 001-38235

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**RISE Education Cayman Ltd**

(Exact name of Registrant as specified in its charter)

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N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Room 101, Jia He Guo Xin Mansion  
No.15 Baiqiao Street, Guangqumennei, Dongcheng District  
Beijing 100062  
People's Republic of China  
(Address of principal executive offices)

Ms. Lihong Wang, Chief Executive Officer  
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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class   | Trading<br>Symbol(s) | Name of each exchange<br>on which registered |
|---|----------------------|--|
| American Depositary Shares, each representing<br>two ordinary shares, par value US\$0.01 per<br>share | REDU                 | The Nasdaq Stock Market LLC                  |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None  
(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None  
(Title of Class)

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report.

112,755,320 ordinary shares, par value US\$0.01 per share, as of December 31, 2019

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards † provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

TABLE OF CONTENTS

|   | Page |
|---|------|
| <b>INTRODUCTION</b>   |      |
| <b><u>PART I</u></b>  | 4    |
| <a href="#">ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</a>                         | 4    |
| <a href="#">ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</a>                                       | 4    |
| <a href="#">ITEM 3. KEY INFORMATION</a>   | 4    |
| <a href="#">ITEM 4. INFORMATION ON THE COMPANY</a>  | 33   |
| <a href="#">ITEM 4A. UNRESOLVED STAFF COMMENTS</a>  | 63   |
| <a href="#">ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</a>                                  | 63   |
| <a href="#">ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</a>                                    | 84   |
| <a href="#">ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</a>                             | 93   |
| <a href="#">ITEM 8. FINANCIAL INFORMATION</a>   | 94   |
| <a href="#">ITEM 9. THE OFFER AND LISTING</a>   | 95   |
| <a href="#">ITEM 10. ADDITIONAL INFORMATION</a>   | 96   |
| <a href="#">ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</a>                   | 102  |
| <a href="#">ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</a>                       | 103  |
| <b><u>PART II</u></b>   | 106  |
| <a href="#">ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</a>                              | 106  |
| <a href="#">ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</a> | 106  |
| <a href="#">ITEM 15. CONTROLS AND PROCEDURES</a>  | 106  |
| <a href="#">ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</a>  | 107  |
| <a href="#">ITEM 16B. CODE OF ETHICS</a>  | 107  |
| <a href="#">ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</a>                                      | 108  |
| <a href="#">ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</a>                  | 108  |
| <a href="#">ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</a>      | 108  |
| <a href="#">ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</a>                                | 109  |
| <a href="#">ITEM 16G. CORPORATE GOVERNANCE</a>  | 109  |
| <a href="#">ITEM 16H. MINE SAFETY DISCLOSURE</a>  | 109  |
| <b><u>PART III</u></b>  | 110  |
| <a href="#">ITEM 17. FINANCIAL STATEMENTS</a>   | 110  |
| <a href="#">ITEM 18. FINANCIAL STATEMENTS</a>   | 110  |
| <a href="#">ITEM 19. EXHIBITS</a>   | 110  |

## CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F

Unless otherwise indicated and except where the context otherwise requires:

- “ADSs” refers to our American depositary shares, each of which represents two ordinary shares;
- “ADRs” refers to the American depositary receipts, which, if issued, evidence our ADSs;
- “China” or “PRC” refers to the People’s Republic of China, excluding, for the purpose of this annual report only, Taiwan, Hong Kong Special Administrative Region and Macau Special Administrative Region;
- “courses” refer to our flagship courses (i.e., Rise Start, Rise On and Rise up), online courses, such as Can-Talk, and other major courses or services that we may have. As of the date of this annual report, our other major courses include courses and services for academic tutoring, test preparation and admissions consulting;
- “greater China” refers to, for the purpose of this annual report only, the People’s Republic of China and the Hong Kong Special Administrative Region;
- “new students enrolled” refers to the newly acquired students who enrolled in our courses during a given period of time;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “regular courses” refers to our Rise Start and Rise On programs;
- “shares” or “ordinary shares” refers to our ordinary shares, par value US\$0.01 per share;
- “students in class” refers to the students who were taking our courses as of a given date;
- “students” or “teachers” refers to students or teachers, respectively, at self-owned learning centers unless otherwise specified;
- “student retention rate” refers to the percentage of the number of students who continue to study at our self-owned learning centers after completing courses in a particular period to the total number of students who complete courses during the same period;
- “tier-one cities” refers to Beijing, Shanghai, Guangzhou and Shenzhen;
- “US\$,” “U.S. Dollars,” “\$” and “dollars” refer to the legal currency of the United States; and
- “we,” “us,” “our company,” “our,” the “Company” or “RISE Education” refers to RISE Education Cayman Ltd, a Cayman Islands company, and, where appropriate in the context, its subsidiaries and its consolidated affiliates, including our viable interest entity, or VIE, its subsidiaries and schools.

Names of certain companies provided in this annual report are translated or transliterated from their original Chinese legal names.

All discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

This annual report on Form 20-F includes our audited consolidated balance sheets as of December 31, 2018 and 2019 and our audited consolidated statements of income/(loss), statements of comprehensive income/(loss), statements of changes in shareholders’ equity and statements of cash flows for each of the three years ended December 31, 2019.

## [Table of Contents](#)

Our reporting currency is the Renminbi. The functional currency of the Company, its Cayman subsidiaries and Rise HK are the US\$, and the functional currency of Edge Franchising Co. Limited and Edge Online Co., Ltd are the Hong Kong Dollars (“HK\$”). The Company’s PRC subsidiaries, VIE and its subsidiaries and schools determined their functional currency to be Renminbi. This annual report contains translations of certain Renminbi amounts into U.S. Dollars for the convenience of the reader. Unless otherwise stated, all translations of Renminbi into U.S. Dollars have been made at the rate of RMB6.9618 to US\$1.00, being the noon buying rate in The City of New York for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York in effect as of December 31, 2019 set forth in the H.10 statistical release of the U.S. Federal Reserve Board for translation into U.S. Dollars. We make no representation that the Renminbi or U.S. Dollar amounts referred to in this annual report could have been, or could be, converted into U.S. Dollars, Renminbi, as the case may be, at any particular rate or at all.

We listed our ADSs on the NASDAQ Global Market under the symbol “REDU” on October 20, 2017. On October 24, 2017, we completed the initial public offering of 11,000,000 ADSs and the underwriters exercised their over-allotment option on the same date for the purchase of an additional 1,650,000 ADSs. On June 11, 2018, we completed the follow-on public offering of 7,000,000 ADSs by the selling shareholders of our company. On July 11, 2018, the sole underwriter exercised its over-allotment option to purchase an additional 585,000 ADSs from the selling shareholders. In November 2018, our board of directors approved a share repurchase program for a period not exceeding one year commencing on November 19, 2018. This share repurchase program was completed during the third quarter of 2019. We repurchased a total of 1,158,741 ADSs on the open market, representing 2,317,482 ordinary shares, at an average price of US\$8.66 per ADS and for an aggregate consideration of US\$10.0 million.

## FORWARD LOOKING STATEMENTS

This annual report contains forward-looking statements that involve risks and uncertainties. All statements other than statements of current or historical facts are forward-looking statements. These forward-looking statements are made under the “safe harbor” provision under Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and as defined in the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other factors, including those listed under “Item 3. Key Information—D. Risk Factors,” that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

In some cases, you can identify these forward-looking statements by words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “likely to” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include statements about:

- our goals and strategies;
- our ability to retain our students in class and increase the number of our new students enrolled;
- our ability to offer new courses and develop supplementary course materials;
- our ability to engage, train and retain new teachers;
- our future business development, financial condition and results of operations;
- the expected growth in, market size of and trends in the markets for our course offerings in China;
- expected changes in our revenues, costs or expenditures;
- our expectations for demand for and market acceptance of our brand;
- growth of and trends of competition in the junior English language teaching, or ELT, market in China;
- government policies and regulations relating to our corporate structure, business and industry; and
- general economic and business conditions in China.

You should read this annual report and the documents that we refer to in this annual report with the understanding that our actual future results may be materially different from and worse than what we expect. Other sections of this annual report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all of our forward-looking statements by these cautionary statements.

You should not rely upon forward-looking statements as predictions of future events. The forward-looking statements made in this annual report relate only to events or information as of the date on which the statements are made in this annual report. Except as required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This annual report also contains statistical data and estimates that we obtained from industry publications and reports generated by government or third-party providers of market intelligence. Although we have not independently verified the data, we believe that the publications and reports are reliable.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

The following selected consolidated statements of operations data for the years ended December 31, 2017, 2018 and 2019 and selected consolidated balance sheet data as of December 31, 2018 and 2019 have been derived from our audited consolidated financial statements included elsewhere in this annual report. The selected data from the consolidated income statements for the years ended December 31, 2015 and 2016 and the consolidated balance sheet data as of December 31, 2016 and 2017 are derived from our consolidated financial statements, which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and the related notes and the “Item 5. Operating and Financial Review and Prospects” included elsewhere in this annual report. Our historical results are not necessarily indicative of results expected for future periods.

|  | <b>For the Year Ended December 31,</b> |             |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|-------------|
|  | <b>2015</b>                            | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> |             |
|  | <b>RMB</b>                             | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>RMB</b>  | <b>US\$</b> |
| <b>(thousands, except for EBITDA margin)</b>                                 |  |             |             |             |             |             |
| <b>Selected Consolidated Statements of Operations Data:</b>                  |  |             |             |             |             |             |
| <b>Revenues:</b>   |  |             |             |             |             |             |
| Educational programs <sup>(1)</sup>  | 451,411                                | 618,326     | 835,065     | 1,097,619   | 1,324,654   | 190,274     |
| Franchise revenues <sup>(1)</sup>  | 60,793                                 | 63,532      | 100,013     | 125,341     | 156,509     | 22,481      |
| Other revenues <sup>(1)</sup>  | 17,265                                 | 29,135      | 34,197      | 48,928      | 48,284      | 6,936       |
| Total  | 529,469                                | 710,993     | 969,275     | 1,271,888   | 1,529,447   | 219,691     |
| Cost of revenues   | (346,671)                              | (363,579)   | (452,220)   | (576,530)   | (694,693)   | (99,786)    |
| Gross profit   | 182,798                                | 347,414     | 517,055     | 695,358     | 834,754     | 119,905     |
| <b>Operating expenses:</b>   |  |             |             |             |             |             |
| Selling and marketing  | (96,688)                               | (128,475)   | (177,993)   | (245,662)   | (307,339)   | (44,146)    |
| General and administrative   | (135,603)                              | (148,093)   | (339,690)   | (242,084)   | (304,626)   | (43,757)    |
| Total operating expenses   | (232,291)                              | (276,568)   | (517,683)   | (487,746)   | (611,965)   | (87,903)    |
| Operating (loss)/income  | (49,493)                               | 70,846      | (628)       | 207,612     | 222,789     | 32,002      |
| Interest income  | 17,853                                 | 16,622      | 19,559      | 26,376      | 17,952      | 2,579       |
| Interest expense   | —                                      | (6,073)     | (26,589)    | (33,803)    | (34,093)    | (4,897)     |
| Foreign currency exchange (loss)/gain  | (1,473)                                | (2,741)     | 388         | (1,383)     | (1,506)     | (216)       |
| Other income, net  | 253                                    | 4,391       | 6,594       | 15,397      | 10,115      | 1,452       |
| (Loss)/income before income tax expense                                      | (32,860)                               | 83,045      | (676)       | 214,199     | 215,257     | 30,920      |
| Income tax benefit/(expense)   | 1,119                                  | (32,202)    | (52,924)    | (71,763)    | (70,697)    | (10,155)    |
| Net (loss)/income  | (31,741)                               | 50,843      | (53,600)    | 142,436     | 144,560     | 20,765      |
| Net loss attributable to non-controlling interests                           | 5,456                                  | 3,080       | 5,626       | 522         | 3,540       | 508         |
| Net (loss)/income attributable to RISE Education Cayman Ltd                  | (26,285)                               | 53,923      | (47,974)    | 142,958     | 148,100     | 21,273      |
| <b>Non-GAAP Financial Measures:</b>  |  |             |             |             |             |             |
| EBITDA <sup>(2)</sup>  | 40,794                                 | 142,318     | 56,064      | 279,852     | 301,419     | 43,296      |
| EBITDA margin <sup>(3)</sup>   | 7.7%                                   | 20.0%       | 5.8%        | 22.0%       | 19.7%       |             |
| Adjusted EBITDA <sup>(2)</sup>   | —                                      | —           | 242,510     | 300,204     | 349,308     | 50,175      |
| Adjusted EBITDA margin <sup>(4)</sup>  | —                                      | —           | 25.0%       | 23.6%       | 22.8%       |             |
| Non-GAAP net income attributable to RISE Education Cayman Ltd <sup>(2)</sup> | 24,595                                 | 86,042      | 144,954     | 179,932     | 213,363     | 30,647      |

(1) To be consistent with our management reporting framework, revenues from educational programs include revenues generated by The Edge starting from the first quarter of 2019. Revenues from educational programs in previous years have been adjusted to conform to the presentation in 2019.

## Table of Contents

- (2) To see how we define and calculate EBITDA, adjusted EBITDA, Non-GAAP net (loss)/income, a reconciliation between EBITDA and net (loss)/income and a discussion about the limitations of non-GAAP financial measures, see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Non-GAAP Financial Measures.”
- (3) EBITDA margin is calculated by dividing EBITDA by revenues.
- (4) Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by revenues.

|   | As of December 31, |             |             |             |         |
|---|--------------------|-------------|-------------|-------------|---------|
|   | 2016<br>RMB        | 2017<br>RMB | 2018<br>RMB | 2019<br>RMB | US\$    |
| <b>Selected Consolidated Balance Sheet Data:</b>                      | (thousands)        |             |             |             |         |
| Total current assets  | 707,738            | 1,142,445   | 1,402,270   | 1,084,866   | 155,832 |
| Cash and cash equivalents   | 639,999            | 1,055,982   | 1,288,080   | 999,012     | 143,499 |
| Prepayments and other current assets                                  | 45,517             | 40,571      | 71,537      | 51,420      | 7,386   |
| Total non-current assets  | 792,560            | 813,893     | 878,504     | 1,717,089   | 246,644 |
| Property and equipment, net   | 75,673             | 100,177     | 128,412     | 137,340     | 19,728  |
| Intangible assets, net  | 225,951            | 200,615     | 198,057     | 210,346     | 30,214  |
| Goodwill  | 461,686            | 475,732     | 491,969     | 665,416     | 95,581  |
| Total assets  | 1,500,298          | 1,956,338   | 2,280,774   | 2,801,955   | 402,476 |
| Total current liabilities   | 763,366            | 1,030,700   | 1,278,872   | 1,233,518   | 177,184 |
| Current portion of long-term loan                                     | 38,186             | —           | 82,506      | 134,015     | 19,250  |
| Accrued expenses and other current liabilities                        | 96,158             | 171,099     | 159,882     | 202,808     | 29,133  |
| Deferred revenue and customer advances                                | 601,324            | 812,821     | 1,002,796   | 716,637     | 102,938 |
| Total non-current liabilities   | 338,505            | 629,906     | 561,068     | 944,136     | 135,616 |
| Long-term loan  | 333,102            | 623,439     | 502,356     | 370,163     | 53,171  |
| Total liabilities   | 1,101,871          | 1,660,606   | 1,839,940   | 2,177,654   | 312,800 |
| Total RISE Education Cayman Ltd shareholders’ equity                  | 407,200            | 310,131     | 455,755     | 608,896     | 87,462  |
| Non-controlling interests   | (8,773)            | (14,399)    | (14,921)    | 15,405      | 2,214   |
| Total equity  | 398,427            | 295,732     | 440,834     | 624,301     | 89,676  |
| Total liabilities, non-controlling interests and shareholders’ equity | 1,500,298          | 1,956,338   | 2,280,774   | 2,801,955   | 402,476 |

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

**Risks Related to Our Business and Industry**

***We may not be able to attract new students or retain our existing students.***

The success of our business depends largely on the number of students. Therefore, our ability to continue to attract new students and retain existing students is critical to our continued success and growth. Being able to do so is dependent on a variety of factors, including our ability to maintain and enhance product and service quality, refine our teaching methodologies and innovate and develop new products to respond to our customers' demands and changing market trends and our ability to connect with existing and potentially new students through various marketing channels. If we are unable to continue to attract new students or retain existing students, our revenues may decline, or we may not be able to maintain profitability, either of which could have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to maintain or enhance our brand.***

We believe that our "RISE" brand has contributed significantly to the success of our business and thus it is one of our key competitive advantages. We undertake a number of initiatives and invest significant capital and other resources to promote our brand. However, our branding efforts may not be successful or may even inadvertently damage our brand. Moreover, our brand may be materially and adversely affected if our franchise partners fail to properly maintain the operations of their franchised learning centers. Furthermore, any negative publicity relating to our company, products, teachers, employees and students, self-owned learning centers, franchise partners, franchised learning centers or their teachers, employees and students, regardless of its veracity, could harm our brand image and reputation and even expose us to adverse legal and regulatory consequences. If we are unable to maintain or enhance our brand, eliminate incidents of negative publicity, or manage our marketing and branding spend, our business and results of operations may be materially and adversely affected.

***We face intense competition in our industry, and we may fail to maintain or gain market share.***

The junior ELT market in China is rapidly evolving, highly fragmented and intensely competitive. Competition in this industry may persist and even intensify. We compete with other junior ELT service providers in a number of areas, such as brand image, course content and structure and service quality. Some of these competitors may have greater financial or other resources than we do. We cannot assure you that we will be able to compete successfully against existing or potential competitors, and if we fail to gain or maintain, or if we lose market share, our business, financial condition and results of operations may be materially and adversely affected.

***We may not be able to grow as rapidly as we have in the past, or effectively execute our growth strategies.***

We aim to continue to open new self-owned learning centers, and cooperate with franchise partners to open new franchised learning centers. We also aim to continue enrolling new students, recruiting new teachers, increasing the operating efficiency of our existing and new learning centers and investing in complementary products. However, we may not be able to continue to grow as rapidly as we have in the past.

Furthermore, if we fail to execute our growth strategies effectively, our financial condition and results of operations may be materially and adversely affected.

***Our profitability may decline due to various factors.***

We may face challenges in maintaining our profitability due to a rise in either or both of our fixed and variable costs as a percentage of our overall revenues. Our fixed costs largely comprise rental and personnel costs while variable costs primarily include teacher and sales and marketing costs. The rise in fixed or variable costs may be due to increasing competition, a result of operational decisions or unexpected. Any of these factors may negatively affect our profitability and have a material adverse effect on our financial condition and results of operations.

***We may not be successful in introducing new products or enhancing our existing products.***

We currently offer three flagship courses Rise Start, Rise On and Rise Up, as well as a series of complementary products, primarily through the courses provided at our self-owned and franchised learning centers. We intend to continue developing new products, further enhancing our existing products, as well as further develop our online courses and products. This process is subject to risks and uncertainties, such as unexpected technical, operational, logistical or other problems that could delay the process temporarily or permanently. Moreover, our experience in operating and managing online operations may be relatively limited compared to our offline operations. Therefore, we cannot assure you that any of these new products, enhancement of existing products or development of online courses and products will fulfill customer needs, match the quality or popularity of those developed by our competitors, achieve widespread market acceptance or generate incremental revenues.

In addition, introducing new products, enhancing existing products and expanding online courses and products require us to make various investments in curriculum and courseware development and management, incur personnel expenses and potentially reallocate other resources. If we are unable to develop new products or cannot do so in a cost-effective manner, or are otherwise unable to manage effectively the operations of those products, our financial condition and results of operations could be adversely affected.

***A number of learning centers operate without the required licenses, permits, filings or registrations.***

In order to operate our business, we must receive a number of licenses, permits, and approvals, make filings or complete registrations. These include receiving private school operating permits and private non-enterprise entity certificates, receiving approvals from or making filings to local education bureaus, and passing fire control assessments. Given the significant amount of discretion held by local PRC authorities in interpreting, implementing and enforcing relevant rules and regulations, as well as other factors beyond our control, we cannot guarantee you that we will be able to obtain and maintain all requisite licenses, permits, approvals, filings, or pass all requisite assessments. While we are in the process of bringing our operations into compliance, among all our self-owned learning centers, those that as of the date of this annual report do not possess the required private school operating permit or private non-enterprise entity certificates, have not obtained approvals from or made filings to local education bureaus, or have not passed the required fire control assessments, as a whole, were responsible for 7.4% of our total revenues in 2019. Moreover, new learning centers that we open may have similar compliance issues for a period of time after their opening. Though as of the date of this annual report no penalty has been imposed against us or any of our learning centers, if any of our current or future learning centers fail to receive the requisite licenses, permits and approvals, make the necessary filings, or complete all requisite registrations, that learning center may be subject to penalties. These may include fines, orders to promptly rectify the non-compliance, or if the non-compliance is deemed by the regulators to be serious, the school may be ordered to return tuition and fees collected and pay a multiple of the amount of returned tuition and fees to regulators as a penalty or may even be ordered to cease operations.

On July 12, 2019, the PRC Ministry of Education, or MOE, together with five other authorities, issued the Implementation Opinion on Regulating After-school Online Tutoring, requiring online after-school tutoring institutions to make certain filings and conduct examination and inspections on the contents of their platforms, the qualifications of their teachers, information security and the length of time period of their courses. This regulation also regulates fee standards and refund policies of online after-school tutoring institutions. Furthermore, on August 10, 2019, MOE and seven other authorities issued the Opinion on Guiding and Regulating the Healthy Development of Online Mobile Education Applications, which imposes further requirements on filing as well as on examination and inspections.

In addition, under PRC laws and regulations, we may be required to obtain an ICP license, an audio or video program transmission license, an internet culture permit and an online publishing services permit for the operation of our online educational products, such as Rise Up and Can-Talk. See “Item 4. Information on the Company—B. Business overview—Regulations—Regulations Related to Online Business.”

To comply with the tightening requirements applicable to our business and operations, we need to make necessary adjustments to our business and operations, which could be costly and time-consuming. We cannot assure you that we will be in full compliance with such requirements in time or at all. Although we have not received any material fines or other penalties for non-compliance in the past, if we are not able to comply with all applicable legal requirements, we may be subject to fines, confiscation of the gains derived from our non-compliant operations, suspension of our non-compliant operations or revocation of the operating permits of the non-compliant schools, any of which may materially and adversely affect our business, financial condition and results of operations.

***We may fail to successfully grow or operate our franchise business as our franchise partners may fail to operate the franchised learning centers effectively or we may be unable to maintain our relationships with our franchise partners.***

We derive revenues from our franchise business through initial or renewal franchise fees, recurring franchise fees based on an agreed percentage of each franchised learning center's collected tuition fees, and the sale of individual course materials. We expect our franchise revenues to increase as we grow. We rely on our franchise partners to open and operate new learning centers and our results of operations depend on our ability to attract as well as retain franchise partners. Our franchise partners are independent operators and are responsible for the profitability and financial viability of their learning centers. If our franchise partners fail to operate their learning centers effectively or grow their operations, then our financial condition and results of operations may be materially and adversely affected.

We typically sign a five-year franchise agreement with our franchise partners. Upon expiration of the franchise agreement, we may not be able to renew because it is subject to mutual agreement by both parties. If we fail to renew the franchise agreement, it may also adversely impact our financial condition and results of operations.

***We may not effectively monitor or manage the operations of franchised learning centers.***

Our franchise partners are required to use our standardized curricula and teaching methodologies and to comply with other standardized operating procedures and requirements for the franchised learning centers. However, we may not be able to effectively monitor or control the operations of these learning centers as our franchise partners may deviate from our standards and requirements. Moreover, we do not control the actions of their employees, including their teachers. As a result, the quality of franchised learning center operations may be adversely affected by any number of factors beyond our control.

While we ultimately can take actions to terminate or choose not to renew existing franchise agreements with franchise partners who do not comply with the terms and conditions stipulated by our franchise agreements, including standardized operating procedures, we may not be immediately aware or able to identify problems or take actions quickly enough to resolve these problems. This may lead to potential legal and regulatory non-compliance incidents. For instance, lack of the requisite permits and licenses to operate the franchised learning centers or a failure in registration of franchise agreements with PRC authorities may subject our franchise partners to regulatory risks, which may significantly affect our brand, the results of operations of the franchised learning centers and in turn adversely and materially affect our financial condition.

***Our success depends on the continuing efforts of our senior management team and other key personnel and our business may be harmed if we lose their services.***

Our success depends in part on the continued application of services, efforts and motivation of our senior management team and key personnel. If one or more of our senior management members or key personnel are unable to continue in their present positions, we may not be able to find replacements successfully, and our business may be disrupted.

We will need to continue to hire additional personnel as our business grows. A shortage in the supply of personnel with requisite skills could negatively impact our ability to manage our existing products and services, launch new products and expand our operations. There is competition for experienced personnel in the private education industry and key personnel could leave us to join our competitors. Losing the services of our experienced personnel may be disruptive to and cause uncertainty for our business, which may have a material adverse effect on our business, financial condition and results of operations.

***We may not be able to continue to recruit, train and retain a sufficient number of qualified teachers.***

Teachers help us maintain the quality of our education and services, as well as our brand and reputation. Our ability to continue to attract teachers with the necessary experience and qualifications is a key factor in the success of our operations. We seek to hire qualified teachers who are dedicated to teaching and are able to follow our teaching procedures and deliver effective instruction. The market for teacher recruitment in China is competitive, and we must also provide continued training to ensure that teachers stay abreast of changes in student demands, our teaching methodologies and other key trends necessary. Further, the Measures of Punishment for Violation of Professional Ethics of Primary and Secondary School Teachers, promulgated by MOE on January 11, 2014 and further amended on October 8, 2018, prohibits teachers of primary and secondary schools from providing paid tutoring in schools or in out-of-school learning centers. Although we do not particularly target public school teachers in our teacher recruitment and we typically do not hire part-time teachers, in order to recruit qualified full-time teachers, including those with public school experience, we must provide candidates with competitive compensation packages and offer attractive career development opportunities. Although we have not experienced major difficulties in recruiting or training qualified teachers in the past, we cannot guarantee we will be able to continue to recruit, train and retain a sufficient number of qualified teachers in the future. Failure to recruit, train and retain a sufficient number of qualified teachers may have a material adverse effect on our business, financial condition and results of operations.

***We may encounter disputes from time to time relating to the use of third party intellectual properties.***

We cannot assure you that our products, courseware, course materials or any intellectual property developed or used by us do not or will not infringe the intellectual property rights held by third parties.

Under our intellectual property arrangements with Houghton Mifflin Harcourt Publishing Company, or HMH, we have an exclusive, subject to certain pre-existing third party rights, and royalty-free license from HMH to use certain HMH courseware developed before October 2011 in China permanently for after-school tutoring services for the primary purpose of teaching the English language to non-native English speaking students. The curricula of Rise Start and Rise On uses HMH courseware along with other self-developed content. The arrangements with HMH also entitle us to develop derivative products based on this HMH courseware.

Furthermore, we are subject to certain sublicensing restrictions under our arrangements with HMH. For example, we cannot sublicense to any party that has been finally adjudged as liable for willful copyright infringement in the last five years and we cannot guarantee that the sublicensing restrictions have been fully complied with when we sublicense our curricular to our franchise partners. As a result, we may be deemed liable for breaching our obligations under the license arrangements with HMH.

As of the date of this annual report, we are not aware of any material ongoing legal proceedings or disputes alleging our infringement of third-party intellectual properties. However, we may encounter disputes from time to time over rights and obligations concerning intellectual property, and we may not prevail in those disputes. Any such intellectual property infringement claim could result in costly litigation and divert our management attention and resources.

***We may fail to adequately protect our intellectual property rights, and we may be exposed to intellectual property infringement claims by third parties.***

Since our inception, our trademarks, copyrights, domain names, trade secrets and other intellectual property rights have distinguished us from our competitors and strengthened our competitive advantages.

Under our arrangements with HMH, we are entitled to develop and have developed derivative products based on licensed HMH courseware, and we own the intellectual property rights for all of these derivative products, including trademarks and copyrights, subject to HMH's ownership of the intellectual property rights in its underlying courseware. We hold a variety of intellectual property rights, including 20 registered domain names and 222 registered trademarks, 85 copyright registrations and one patent as of December 31, 2019. Unauthorized use of any of our intellectual property by third parties, including our franchise partners, may adversely affect our business and reputation. We rely on a combination of copyright, trademark and trade secrets laws, and confidentiality agreements with our employees and contractors, to protect our intellectual property rights. We also regularly monitor any infringement or misappropriation of our intellectual property rights. Nevertheless, third parties may obtain and use our intellectual property without due authorization. The practice of intellectual property rights enforcement by the PRC regulatory authorities is in its early stage of development and is subject to significant uncertainty. We may also need to resort to litigation and other legal proceedings to enforce our intellectual property rights. Any such action, litigation or other legal proceedings could result in substantial costs and diversion of our management's attention and resources and could disrupt our business. In addition, we cannot assure you that we will be able to enforce our intellectual property rights effectively or otherwise prevent others from the unauthorized use of our intellectual property. Failure to adequately protect our intellectual property could materially and adversely affect our business, financial condition and results of operations.

***Accidents, injuries, suspension of service or other harm may occur at our learning centers or the events we organize.***

We could be held liable if any student, employee or other person is injured in any accident at any of our learning centers or the events we organize. Although we believe we take appropriate measures to prevent these risks, we may still be held liable if any such incident occurs. Parents may perceive our facilities or events to be unsafe, which may discourage them from sending their children to our learning centers or events. Although we maintain liability insurance, the insurance coverage may not be adequate to fully protect us from claims of all kinds and we cannot guarantee that we will be able to successfully claim under our existing liability insurance policies or obtain sufficient liability insurance in the future. We have historically encountered isolated student-related accidents on our learning center premises. Any criminal or liability claim against us or any of our employees could adversely affect our reputation and ability to attract and retain students. Any of these incidents may create unfavorable publicity, cause us to incur substantial expenses and divert the time and attention of our management.

***We may not be able to integrate businesses that we may acquire in the future.***

We may make acquisitions to facilitate our business growth, such as expanding into other geographic markets, serving different age groups of students and extending our product portfolio. We cannot assure you that we will be able to integrate the acquired businesses with our existing operations, and we may incur significant financial resources to streamline the operation of the acquired businesses under our internal control requirements and divert substantial management attention to the transition of the acquired businesses before achieving full integration. In addition, the businesses we acquire may be loss making or have existing liabilities or other risks that we may not be able to effectively manage or may not be aware of at the time we acquire them, which may impact our ability to realize the expected benefits from the acquisition or our financial performance. If we fail to integrate the acquired businesses in a timely manner or at all, we may not be able to achieve the anticipated benefits or synergies from the acquired businesses, which may adversely affect our business growth.

***Our results of operations are subject to seasonal fluctuations.***

Our industry generally experiences seasonality. Seasonal fluctuations have affected, and are likely to continue to affect, our business. In general, we generate higher revenues in the third quarter as we generate revenues from summer overseas study tours during the summer holiday. We also generally generate lower revenues in the first quarter as we deliver fewer classes due to the Chinese New Year holiday, which is partially offset by revenues generated from our winter overseas study tours. Overall, although the historical seasonality of our business has been relatively mild, we expect to continue to experience seasonal fluctuations in our results of operations. These fluctuations may result in volatility in and adversely affect the price of our ADSs.

***We may not be able to conduct our selling and marketing activities effectively.***

Our selling and marketing activities may not be well received by parents or students and may not result in the level of sales that we anticipate. In addition, we may not be able to retain or recruit experienced selling and marketing staff, or to efficiently train junior staff. Moreover, selling and marketing methods and tools in the junior ELT market in China continue to evolve. This may require us to experiment with new methods to keep pace with industry developments and student needs. Failure to refine our existing approaches or to implement new approaches in a cost-effective manner may reduce our market share, cause our revenues to decline and negatively impact our profitability.

***We may have to relocate our learning centers.***

As of December 31, 2019, we leased a total area of approximately 106,016 square meters for self-owned learning centers, and we may have to relocate for a number of reasons.

Our lease arrangements are typically for a term of at least five years, and are renewable upon mutual consent at the end of the period. We may not be able to successfully renew leases upon expiration of the current term, and may decide to move to more premium locations or have to relocate our operations for various other reasons, including increase of rentals and failure in passing the fire prevention assessment in certain locations. In those cases, we may not be able to locate desirable alternative sites for our learning centers or at a reasonable price.

## [Table of Contents](#)

We have not been able to receive from our lessors of some of our leased properties copies of title certificates or proof of authorization to lease the properties to us. In addition, we have not registered most of our lease agreements with relevant government authorities as required by PRC law. As of the date of this annual report, we are not aware of any actions, claims or investigations threatened against us or our lessors with respect to the defects in our leasehold interests which, in the opinion of our management, is likely to have an adverse material effect on our business, financial condition or results of operations. However, if any of our leases is terminated as a result of challenges by third parties or governmental authorities for lack of title certificates or proof of authorization to lease, we do not expect to be subject to any fines or penalties but we may be forced to relocate the affected learning centers and incur additional expenses relating to such relocation. In addition, failure to complete the lease registration will not affect the legal effectiveness of the lease agreements according to PRC law, but the real estate administrative authorities may require the parties to the lease agreements to complete lease registration within a prescribed period of time and the failure to do so may subject the parties to fines from RMB1,000 to RMB10,000.

### ***Our data management system may have weakness and personal data that we collect and retain may be publicly disclosed due to a system failure or otherwise.***

We maintain personal data, such as academic records, address and family information of students, teachers and other employees. If the security measures we use to protect personal data are ineffective due to a system failure or other reasons, we could be liable for claims of invasion of privacy, impersonation, unauthorized purchases or other claims. In addition, we could be held liable for the misuse of personal data, fraudulent or otherwise, by students, teachers and other employees. We could incur significant expenses in connection with rectifying any security breaches, settling any resulting claims and providing additional protection to prevent additional breaches. In addition, any failure to protect personal information may adversely impact our ability to attract and retain students, harm our reputation and materially and adversely affect our business, results of operations and prospects.

### ***Our relationships with overseas education service providers may deteriorate.***

We collaborate with various overseas schools and institutions to provide overseas study tours to students where we are the operator who set the price. We organize tours for students to attend classes abroad, in preschools, elementary schools and middle schools, primarily in the United States and Canada. These relationships help us offer more diverse products, and charge a premium for the products we offer with other overseas education service providers. These relationships also help us enhance our brand and reputation and provide exposure to international educational best practices and methods.

If our relationships with any of these overseas education service providers deteriorate or are otherwise damaged or terminated, or if the benefits we derive from these relationships diminishes, whether as a result of our own actions or the actions of others, including our competitors, or of regulatory authorities or other entities beyond our control, our business, prospects, financial condition and results of operations could be adversely affected.

### ***We have limited insurance coverage with respect to our business and operations.***

We are exposed to various risks associated with our business and operations, and we have limited insurance coverage. See “Item 4. Information of the Company—B. Business Overview—Insurance” for more information. We are exposed to risks including, among other things, accidents or injuries in our learning centers, loss of key management and personnel, business interruption, natural disasters, terrorist attacks and social instability or any other events beyond our control. The insurance industry in China is still at an early stage of development, and as a result insurance companies in China offer limited business related insurance products. We do not have any business interruption insurance, product liability insurance or key-man life insurance. Any business disruption, legal proceeding or natural disaster or other events beyond our control could result in substantial costs and diversion of our resources, which may materially and adversely affect our business, financial condition and results of operations.

***Our employees may engage in misconduct or other improper activities.***

Like all companies, we face the risk of employee misconduct or other improper activities. Employee misconduct could include intentional failures to comply with laws and regulations, unauthorized activities, attempts to obtain reimbursement for improper expenses, or submission of falsified time records. Negative press reports regarding employee misconduct could harm our reputation, and if our reputation is negatively affected, our future revenues and growth prospects would be adversely affected. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in controlling unknown or unmanaged risks or losses, which could harm our business, financial condition, results of operations and our ability to meet our financial obligations.

***We have granted options, and we may continue to grant options under our share incentive plans, which may result in increased share-based compensation expenses.***

In 2016, we approved a share incentive plan, or the 2016 ESOP Plan, that permits the granting of options to purchase our ordinary shares. The maximum aggregate number of ordinary shares that may be issued pursuant to all awards under the 2016 ESOP Plan was 7,000,000. In 2017, we approved a new share incentive plan, or the 2017 ESOP Plan, that permits the granting of options, restricted shares, restricted share units, dividend equivalents, deferred shares, share payment and share appreciation rights. The 2017 ESOP Plan became effective upon completion of our initial public offering. The maximum aggregate number of ordinary shares that may be issued pursuant to all awards under the 2017 ESOP Plan was 5,000,000.

As of the date of this annual report, options to purchase 2,066,717 and 3,260,000 ordinary shares have been granted and outstanding under the 2016 ESOP Plan and the 2017 ESOP Plan, respectively. We will incur future share-based compensation expenses upon the occurrence of the exercisability event, upon which the options will be accounted for as a cumulative compensation cost since the service inception date, with the remaining unrecognized compensation cost amortized over the remaining requisite service period.

As of December 31, 2019, the unrecognized compensation expenses related to the non-vested share options amounted to US\$7,254,000, which will be recognized over the remaining requisite period when the exercisability event becomes probable. Expenses associated with share-based compensation awards granted under our share incentive plan may materially reduce our future net income. However, if we limit the size of grants under our share incentive plan to minimize share-based compensation expenses, we may not be able to attract or retain key personnel.

***If we fail to implement and maintain an effective system of internal controls, we may be unable to accurately or timely report our results of operations or prevent fraud.***

As a public company in the United States, we are subject to the Sarbanes-Oxley Act of 2002. Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include a report from management on the effectiveness of our internal control over financial reporting in our annual report on Form 20-F. Our management has concluded that our internal control over financial reporting was effective as of December 31, 2019. See “Item 15. Controls and Procedures—Management’s Annual Report on Internal Control over Financial Reporting.” However, if we fail to maintain effective internal control over financial reporting in the future, our management may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. Moreover, effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, a failure to achieve and maintain effective internal controls over financial reporting could in turn result in the loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. In addition, once we cease to be an “emerging growth company” as such term is defined in the JOBS Act, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

***The audit report included in this annual report is prepared by auditors who are not fully inspected by the Public Company Accounting Oversight Board, and, as such, you are deprived of the benefits of such inspection.***

Our independent registered public accounting firm issues the audit report included in this annual report filed with the Securities and Exchange Commission, or the SEC. As auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, our independent registered public accounting firm, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditors are located in China, a jurisdiction where PCAOB is currently unable to conduct full inspections without the approval of the Chinese authorities, our auditors are not currently inspected by PCAOB.

## [Table of Contents](#)

Inspections of other firms that PCAOB has conducted outside China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of full PCAOB inspections in China prevents PCAOB from regularly evaluating our auditor's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

The inability of PCAOB to conduct full inspections of auditors in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national laws, in particular that of China, a bipartisan group of lawmakers introduced bills in June 2019 in both houses of the U.S. Congress that would require the SEC to maintain a list of issuers for which PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The proposed Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges (EQUITABLE) Act prescribes increased disclosure requirements for these issuers and requires the rules of the U.S. national securities exchanges to prohibit the listing of securities of a foreign issuer that, beginning in 2025, has been included on the SEC's such list for three consecutive years. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of our ADSs could be adversely affected. Nasdaq also released an FAQ (identification number 1696) on June 10, 2019, stating that Nasdaq may, relying on the discretionary afforded under its current listing rules, deny initial or continued listing or apply additional and more stringent criteria if the auditor of a Nasdaq-listed company has not been subject to PCAOB inspection. It remains unclear whether this proposed legislation would be enacted into law. Furthermore, there have been media reports on deliberations within the U.S. government regarding potentially limiting or restricting China-based companies from accessing U.S. capital markets. If any such deliberations were to materialize, the resulting legislation may have a material and adverse impact on the performance of securities issued by China-based issuers listed in the U.S., including us.

***If additional remedial measures are imposed on the "big four" PRC-based accounting firms, including our independent registered public accounting firm, in administrative proceedings brought by the SEC alleging the firms' failure to meet specific criteria set by the SEC, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.***

Beginning in 2011, the Chinese affiliates of the "big four" accounting firms (including our independent registered public accounting firm) were affected by a conflict between the U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in China, the SEC and PCAOB sought to obtain access to the audit work papers and related documents of the Chinese affiliates of the "big four" accounting firms. The accounting firms were, however, advised and directed that, under Chinese law, they could not respond directly to the requests of the SEC and PCAOB and that such requests, and similar requests by foreign regulators for access to such papers in China, had to be channeled through the China Securities Regulatory Commission, or CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the "big four" accounting firms (including our independent registered public accounting firm). A first instance trial of these proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms, including a temporary suspension of their right to practice before the SEC. Implementation of the latter penalty was postponed pending review by the SEC Commissioners. On February 6, 2015, each of the four China-based accounting firms agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC. The firms' ability to continue to serve all their respective clients is not affected by the settlement. The settlement requires the firms to follow detailed procedures to seek to provide the SEC with access to Chinese firms' audit documents via the China Securities Regulatory Commission. If the firms do not follow these procedures, the SEC could impose penalties such as suspensions, or it could restart the administrative proceedings. The settlement did not require the firms to admit to any violation of law and preserves the firms' legal defenses in the event the administrative proceeding is restarted.

In the event that the SEC restarts administrative proceedings, depending upon the final outcome, listed companies in the U.S. with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in China, which could result in their financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against the firms may cause investor uncertainty regarding China-based, U.S.-listed companies, including our company, and the market price of our shares may be adversely affected.

If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our shares from the Nasdaq or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our shares in the United States.

### **Risks Related to Our Corporate Structure**

***The PRC government may find that the contractual arrangements that establish our corporate structure for operating our business do not comply with applicable PRC laws and regulations.***

PRC laws and regulations currently require any foreign entity that invests in the education business in China to be an educational institution with relevant experience in providing education services outside China. Our Cayman Islands holding company is not an educational institution and does not provide education services. To comply with PRC laws and regulations, we operate our business through our PRC consolidated affiliates, including Beijing Step Ahead Education Technology Development Co., Ltd., or Beijing Step Ahead or VIE, and its subsidiaries and schools that operate self-owned learning centers. Beijing Step Ahead is 80% owned by Mr. Peng Zhang and 20% owned by Mr. Yiding Sun. Both shareholders of Beijing Step Ahead are PRC citizens. We entered into a series of contractual arrangements with Beijing Step Ahead and its schools and shareholders, which enable us to:

- exercise effective control over our consolidated affiliates;
- receive substantially all of the economic benefits from our consolidated affiliates; and
- have a call option to purchase all or part of the equity interests in Beijing Step Ahead when and to the extent permitted by the relevant laws.

Because of these contractual arrangements, we are the primary beneficiary of Beijing Step Ahead and its subsidiaries and schools and treat them as our PRC consolidated affiliates under U.S. GAAP. We consolidate the financial results of Beijing Step Ahead and its subsidiaries and schools in our consolidated financial statements in accordance with U.S. GAAP. For a detailed discussion of these contractual arrangements, see “Item 4. Information of the Company—C. Organizational Structure.”

There are, however, substantial uncertainties regarding the interpretation and application of current or future PRC laws and regulations concerning foreign investment in the PRC, and their application to and effect on the legality, binding effect and enforceability of the contractual arrangements. In particular, we cannot rule out the possibility that PRC regulatory authorities, courts or arbitral tribunals may in the future adopt a different or contrary interpretation or take a view that is inconsistent with the opinion of our PRC legal counsel. It is uncertain whether any new PRC laws, rules or regulations relating to variable interest entity structures will be adopted or if adopted, what affect they may have on our corporate structure.

If, as a result of such contractual arrangement, we or Beijing Step Ahead and its subsidiaries and schools are found to be in violation of any existing or future PRC laws or regulations, or such contractual arrangement is determined as illegal and invalid by the PRC court, arbitral tribunal or regulatory authorities, or we fail to obtain, maintain or renew any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion to take action in dealing with such violations or failures, including:

## Table of Contents

- revoking the business licenses and/or operating licenses of Rise (Tianjin) Education Information Consulting Co., Ltd., or Rise Tianjin, and/or Beijing Step Ahead and its subsidiaries and schools;
- discontinuing or restricting the conduct of any transactions between Rise Tianjin and Beijing Step Ahead and its subsidiaries and schools;
- limiting our business expansion in China by way of entering into contractual arrangements;
- imposing fines and penalties, confiscating the income from Beijing Step Ahead and its subsidiaries and schools, or imposing other requirements with which we or Beijing Step Ahead and its subsidiaries and schools may not be able to comply with;
- shutting down our servers or blocking our websites;
- requiring us to restructure our ownership structure or operations, including terminating the contractual arrangements with Beijing Step Ahead and its subsidiaries and schools and deregistering the equity pledges of Beijing Step Ahead;
- restricting or prohibiting our use of the proceeds of our initial public offering to finance our business and operations in China;
- restricting the use of financing sources by us or our consolidated affiliates or otherwise restricting our or their ability to conduct business;
- imposing additional conditions or requirements with which we may not be able to comply with; or
- take other regulatory or enforcement actions against us that could be harmful to our business.

The imposition of any of these penalties could result in a material and adverse effect on our ability to conduct our business and on our results of operations. If any of these penalties results in our inability to direct the activities of our consolidated affiliates that most significantly impact their economic performance, and/or our failure to receive the economic benefits from our consolidated affiliates, we may not be able to consolidate them in our consolidated financial statements in accordance with U.S. GAAP.

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

The VIE structure has been adopted by many PRC-based companies, including us, to obtain necessary licenses and permits in the industries that are currently subject to foreign investment restrictions in China. See “—Risks Related to Our Corporate Structure—The PRC government may find that the contractual arrangements that establish our corporate structure for operating our business do not comply with applicable PRC laws and regulations.” and “Item 4. Information of the Company—C. Organizational Structure.” The Ministry of Commerce, or MOFCOM, published a discussion draft of the proposed Foreign Investment Law in January 2015, or the 2015 Draft Foreign Investment Law, according to which, variable interest entities that are controlled via contractual arrangements would also be deemed as foreign-invested enterprises, or the FIEs, if they are ultimately “controlled” by foreign investors. In March 2019, the PRC National People’s Congress promulgated the Foreign Investment Law, or the 2019 Foreign Investment Law, which became effective on January 1, 2020 and has replaced the major existing laws and regulations governing foreign investment in the PRC. On December 26, 2019, the State Council of the PRC promulgated the Regulation on the Implementation of the Foreign Investment Law, effective January 1, 2020, to provide further guidance on the implementation of the 2019 Foreign Investment Law. Pursuant to the 2019 Foreign Investment Law and its implementation rule, “foreign investments” refer to investment activities conducted by foreign investors directly or “indirectly” in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment in other methods as specified in laws, administrative regulations, or as stipulated by the State Council. Although neither the 2019 Foreign Investment Law nor its implementation rule introduces the concept of “control” in determining whether a company should be considered as an FIE, nor does it provide the “variable interest entity” structure as a method of foreign investment, as the 2019 Foreign Investment Law is newly adopted and, in addition to its implementation rule, relevant government authorities may promulgate more laws, regulations or rules on the interpretation and implementation of the 2019 Foreign Investment Law, the possibility can’t be ruled out that the concept of “control” as stated in the 2015 Draft Foreign Investment Law may be embodied in, or the “variable interest entity” structure adopted by us may be deemed as a method of foreign investment by, any of such future laws, regulations and rules. If our consolidated affiliates were deemed as an FIE under any of such future laws, regulations and rules, and any of the businesses that we operate would be in any “negative list” for foreign investment and therefore be subject to any foreign investment restrictions or prohibitions, further actions required to be taken by us under such laws, regulations and rules may materially and adversely affect our business and financial condition.

***We rely on contractual arrangements with our consolidated affiliates and the shareholders of Beijing Step Ahead for our operations in China, which may not be as effective in providing control as direct ownership.***

We have relied and expect to continue to rely on the contractual arrangements with our consolidated affiliates and the shareholders of Beijing Step Ahead to operate our junior ELT business. For a description of these contractual arrangements, see “Item 4. Information of the Company—C. Organizational Structure.” In 2017, 2018 and 2019, the revenue contribution of our consolidated affiliates accounted for 94%, 92% and 94%, respectively, of our total revenues. However, these contractual arrangements may not be as effective as direct equity ownership in providing us with control over our consolidated affiliates. Any failure by our consolidated affiliates or the shareholders of Beijing Step Ahead to perform their obligations under the contractual arrangements would have a material adverse effect on the financial position and performance of our company. For example, the contractual arrangements are governed by PRC law and provide for the resolution of disputes through arbitration in China. Accordingly, these contracts would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with arbitral procedures as contractually stipulated. The commercial arbitration system in China is not as developed as some other jurisdictions, such as the United States.

As a result, uncertainties in the commercial arbitration system or legal system in China could limit our ability to enforce these contractual arrangements. In addition, if the legal structure and the contractual arrangements were found to violate any existing or future PRC laws and regulations, we may be subject to fines or other legal or administrative sanctions.

If the imposition of government actions causes us to lose our right to direct the activities of our consolidated affiliates or our right to receive substantially all the economic benefits from our consolidated affiliates and we are not able to restructure our ownership structure and operations in a satisfactory manner, we would no longer be able to consolidate the financial results of our consolidated affiliates.

***Our consolidated affiliates and their shareholders may fail to perform their obligations under the contractual arrangements.***

Our consolidated affiliates and their shareholders may fail to take certain actions required for our business or to follow our instructions despite their contractual obligations to do so. If they fail to perform their obligations under their respective agreements with us, we may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, which may not be effective.

***The shareholders of Beijing Step Ahead may have actual or potential conflict of interest with us and not act in the best interests of our company.***

The shareholders of Beijing Step Ahead, namely, Mr. Peng Zhang and Mr. Yiding Sun, may have actual or potential conflicts of interest with us. These shareholders may refuse to sign or breach, or cause our consolidated affiliates to breach, or refuse to renew, the existing contractual arrangements we have with them and our consolidated affiliates, which would have a material and adverse effect on our ability to effectively control our consolidated affiliates and receive economic benefits from it. For example, the shareholders may be able to cause our agreements with our consolidated affiliates to be performed in a manner adverse to us by, among other things, failing to remit payments due under the contractual arrangements to us on a timely basis. We cannot assure you that when conflicts of interest arise any or all of these shareholders will act in the best interests of our company or such conflicts will be resolved in our favor. Currently, we do not have any arrangements to address potential conflicts of interest between these shareholders and our company. If we cannot resolve any conflict of interest or dispute between us and these shareholders, we would have to rely on legal proceedings, which could result in disruption of our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

***We rely on dividends, fees and other distributions paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could hinder our ability to conduct our business.***

We are a holding company and rely principally on dividends and fees paid by our subsidiaries in China for our cash needs, including paying dividends and other cash distributions to our shareholders to the extent we choose to do so, servicing any debt we may incur and paying our operating expenses. The income for our offshore and PRC subsidiaries, especially Rise Education International Limited (previously known as Bain Capital Rise Education (HK) Limited), or Rise HK, Rise IP (Cayman) Limited, or Rise IP, and Rise Tianjin, in turn depends on the service fees and IP royalty fees paid by our consolidated affiliates. Current PRC regulations permit our subsidiaries in China to pay dividends to us only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Under the applicable requirements of PRC law, our PRC subsidiaries may only distribute dividends after they have made allowances to fund certain statutory reserves. These reserves are not distributable as cash dividends. In addition, at the end of each fiscal year, each of our schools is required to allocate a certain amount to its development fund for the construction or maintenance of the school properties or purchase or upgrade of school facilities. In particular, our schools that require reasonable returns must allocate no less than 25.0% of their annual net income, and our schools that do not require reasonable returns must allocate no less than 25.0% of their annual increase in the net assets of the school as determined in accordance with generally accepted accounting principles in the PRC. Furthermore, if our subsidiaries or our consolidated affiliates in China incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments to us. Any such restrictions may materially affect such entities' ability to make dividends or make payments, in IP royalty, service fees or otherwise, to us, which may materially and adversely affect our business, financial condition and results of operations.

***Contractual arrangements between our consolidated affiliates and us may be subject to scrutiny by the PRC tax authorities who may find that we or our consolidated affiliates owe additional taxes.***

Under PRC laws and regulations, transactions between related parties should be conducted on an arm's-length basis and may be subject to audit or challenge by the PRC tax authorities. We could face material adverse tax consequences if the PRC tax authorities determine that the contractual arrangements among our subsidiary in China, our consolidated affiliates and the shareholders of Beijing Step Ahead are not conducted on an arm's-length basis and adjust the income of our consolidated affiliates through the transfer pricing adjustment. A transfer pricing adjustment could, among other things, result in, for PRC tax purposes, increased tax liabilities of our subsidiary in China and consolidated affiliates. In addition, the PRC tax authorities may require us to disgorge our prior tax benefits, and require us to pay additional taxes for prior tax years and impose late payment fees and other penalties on our subsidiary in China and consolidated affiliates for underpayment of prior taxes. To date, similar contractual arrangements have been used by many public companies, including companies listed in the United States, and, to our knowledge, the PRC tax authorities have not imposed any material penalties on those companies. However, we cannot assure you that such penalties will not be imposed on any other companies or us in the future. Our net income may be reduced if the tax liabilities of our consolidated affiliates materially increase or if they are found to be subject to additional tax obligations, late payment fees or other penalties.

***Our consolidated affiliates may become the subject of a bankruptcy or liquidation proceeding.***

We currently conduct our primary operations in China through contractual arrangements with our consolidated affiliates and the shareholders of Beijing Step Ahead. As part of these arrangements, the majority of our education-related assets that are critical to the operation of our business are held by our consolidated affiliates. If any of these entities goes bankrupt and all or part of their assets become subject to liens or rights of third-party creditors, we may be unable to continue some or all of our business activities, which could materially and adversely affect our business, financial condition and results of operations. If any of our consolidated affiliates undergoes a voluntary or involuntary liquidation proceeding, its equity owner or unrelated third-party creditors may claim rights relating to some or all of these assets, which would hinder our ability to operate our business and could materially and adversely affect our business, our ability to generate revenue and the market price of our ADSs.

***The custodians or authorized users of our controlling non-tangible assets, including chops and seals, may fail to fulfill their responsibilities, or misappropriate or misuse these assets.***

Under PRC law, legal documents for corporate transactions, including agreements and contracts that our business relies on, are executed using the chop or seal of the signing entity or with the signature of a legal representative whose designation is registered and filed with the relevant PRC industry and commerce authorities.

In order to maintain the physical security of our chops, we generally have them stored in secured locations accessible only to authorized employees. Although we monitor such authorized employees, the procedures may not be sufficient to prevent all instances of abuse or negligence. There is a risk that our employees could abuse their authority, for example, by entering into a contract not approved by us or seeking to gain control of one of our subsidiaries or consolidated affiliates. If any employee obtains, misuses or misappropriates our chops and seals or other controlling intangible assets for whatever reason, we could experience disruption to our normal business operations. We may have to take corporate or legal action, which could involve significant time and resources to resolve and divert management from our operations.

***PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our initial public offering or other funding to make loans or additional capital contributions to our PRC subsidiaries and consolidated affiliates, which could materially and adversely affect our liquidity and our ability to fund and expand our business.***

Any funds we transfer to our PRC subsidiaries and consolidated affiliates, either as a shareholder loan or as an increase in registered capital, are subject to registration or filing with relevant governmental authorities in China.

Currently, there is no statutory limit to the amount of funding that we can provide to our PRC subsidiaries through capital contributions. However, the maximum amount we can loan to our PRC subsidiaries and consolidated affiliates is limited. According to current PRC laws and regulations, we can provide funding to our PRC subsidiaries through loans of up to either (i) the amount of the difference between the respective registered total investment amount and registered capital of each of our PRC subsidiaries, or the Total Investment and Registered Capital Balance, or (ii) two times, or the then applicable statutory multiple, the amount of their respective net assets, calculated in accordance with PRC GAAP, or the Net Assets Limit, at our election. We may also fund our PRC consolidated affiliates through cross-border loans and the maximum amount would be their respective Net Assets Limit. Increasing the Total Investment and Registered Capital Balance of our PRC subsidiaries is subject to governmental procedures and may require a PRC subsidiary to increase its registered capital at the same time. If we choose to make a loan to a PRC entity based on its Net Assets Limit, the maximum amount we would be able to loan to the relevant PRC entity would depend on the relevant entity's net assets and the applicable statutory multiple at the time of calculation. PRC laws and regulations may also impose more stringent limitations to cross-border loans, which will also have negative impact on our ability to fund our PRC entities.

Although we have not utilized the proceeds from our initial public offering to make capital contribution into Rise Tianjin or provide any loan to Rise Tianjin or to our VIE, its subsidiaries or schools, if we seek to do so in the future, we may not be able to obtain the required government approvals or complete the required registrations on a timely basis, if at all. If we fail to receive such approvals or complete such registrations, our ability to use the proceeds of our initial public offering or other funding and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

On March 30, 2015, the State Administration of Foreign Exchange, or SAFE, promulgated the Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-Invested Enterprises, or SAFE Circular 19. SAFE Circular 19 launched a nationwide reform of the administration of the settlement of the foreign exchange capitals of FIEs and allows FIEs to settle their foreign exchange capital at their discretion, but continues to prohibit FIEs from using the Renminbi fund converted from their foreign exchange capitals for expenditure beyond their business scopes, providing entrusted loans or repaying loans between non-financial enterprises. On October 23, 2019, SAFE issued the Notice on Further Facilitating Cross-border Trade and Investment, which, among other things, expanded the use of foreign currency capital in the domestic equity investment area. Foreign-funded enterprises which are not investment companies are allowed to make domestic equity investments by using their paid-in capital, provided that it is a real investment, in compliance with laws and regulations, and not in violation of the Special Administrative Measures (Negative List) for Foreign Investment Access. If our VIE requires financial support from us or our wholly owned subsidiary in the future and we find it necessary to use foreign currency funds to provide such financial support, our ability to fund our variable interest entity's operations will be subject to statutory limits and restrictions, including those described above. Violations of these regulations could result in severe monetary or other penalties. SAFE Circular 19 and relevant foreign exchange regulatory rules may significantly limit our ability to use Renminbi converted from the net proceeds of our initial public offering or other source of funding to fund the establishment of new entities in China by our consolidated affiliates, to invest in or acquire any other PRC companies through our PRC subsidiaries or consolidated affiliates or to establish new consolidated affiliates in the PRC, which may adversely affect our business, financial condition and results of operations.

## Risks Related to Doing Business in China

*PRC economic, political and social conditions, as well as changes in any government policies, laws and regulations, could adversely affect the overall economy in China or the education services market.*

Substantially all of our operations are conducted in China, and substantially all of our revenues are derived from China. Accordingly, our business, prospects, financial condition and results of operations are subject, to a significant extent, to economic, political and legal developments in China.

The PRC economy differs from the economies of most developed countries in many respects. Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the PRC government continues to play a significant role in regulating the industry. The PRC government continues to exercise significant control over China's economic growth through allocating resources, controlling the incurrence and payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Uncertainties or changes in any of these policies, laws and regulations, especially those affecting the private education industry in China, could adversely affect the economy in China or the market for education services, which could harm our business. For example, under the Law on the Promotion of Private Education promulgated on December 28, 2002, its 2013 amendment and its implementing rules, a private school should elect to be either a school that does not require "reasonable returns" or a school that requires "reasonable returns." A private school must consider factors such as the school's tuition, ratio of the funds used for education-related activities to the course fees collected, admission standards and educational quality when determining the percentage of the school's net income that would be distributed to the investors as reasonable returns. However, the PRC laws and regulations provide no clear guideline for determining "reasonable returns." In addition, the PRC laws and regulations do not set forth any different requirements for the management and operations of private schools that elect to require reasonable returns as compared to those that do not. The Law on the Promotion of Private Education was subsequently amended in 2016 and 2018, which amendment came into effect on September 2, 2017 and December 29, 2018, respectively. Under the amended Law on the Promotion of Private Education, the concept "reasonable returns" is no longer applicable and a private school should elect to be either a for-profit school or a non-profit school. A for-profit school will be registered as a corporation and can distribute its profits to its sponsors pursuant to relevant corporate laws, while a non-profit school can only use its profits for the operation of schools. As of the date of this annual report, certain local governments have promulgated local regulations relating to legal person registration and administration for private schools, including Beijing, Shanghai, Guangdong province and Jiangsu province. In particular, certain local governments, such as the Beijing and Shanghai government, require existing private schools to make the decision for their choice in registering as for-profit or non-for-profit schools within a specific time period. However, no national level regulation has been promulgated.

While the PRC economy has experienced significant growth in the past two to three decades, growth has been uneven, both geographically and among various sectors of the economy. Demand for our education services depends, in large part, on economic conditions in China and especially the regions where we operate, including Beijing, Shanghai, Shenzhen and Guangzhou. Any significant slowdown in China's economic growth may adversely affect the disposable income of the families of prospective students and cause prospective students to delay or cancel their plans to enroll in our learning centers, which in turn could reduce our revenues. In addition, any sudden changes to China's political system or the occurrence of social unrest could also have a material adverse effect on our business, financial condition, results of operations and prospects.

***We may be subject to significant limitations on our ability to operate learning centers, or otherwise be materially and adversely affected by changes in PRC laws and regulations governing private education providers. PRC rules and regulations issued by government authorities may restrict after-school tutoring services; and similar or more stringent rules or regulations that limit our ability to offer our services may be introduced in the future.***

Our junior ELT business is subject to certain regulations in China. The PRC government regulates various aspects of our business and operations, such as curriculum content, education materials, tuition and other fees. The laws and regulations applicable to the private education sector are subject to frequent change, and new laws and regulations may be adopted, some of which may have a negative effect on our business, either retroactively or prospectively. For example, on August 22, 2018, the General Office of the State Council issued the Opinions on Regulating Development of After-school Education Institutions, or the State Council Opinions 80, which provide various stringent guidance on regulating after-school training market for primary and secondary school students, including, among others, the operation standards that after-school education institutions should follow, the requirements and approvals necessary for opening new after-school education institutions, the guidance for daily operation of after-school education institutions, and the regulatory supervision regime for after-school education institutions. See “Item 4. Information of the Company — B. Business Overview — Regulation—Recent Regulations on After-school Education Institutions” for a summary of the State Council Opinions 80. We may be unable to meet such requirements in a prompt manner or incur additional costs in complying with such requirements, which may adversely affect our business, financial conditions and results of operations.

Foreign ownership in education services is subject to significant regulations in China. The PRC government regulates the provision of education services through strict licensing requirements. We are a company incorporated in the Cayman Islands. Our PRC subsidiary, Rise Tianjin, is a foreign-owned enterprise and is currently ineligible to apply for and hold licenses and permits to operate, or otherwise own sponsorship interests in, our schools. Due to these restrictions, we conduct our junior ELT business in China primarily through contractual arrangements among (1) Rise HK, (2) Rise Tianjin, (3) our consolidated affiliates, including Beijing Step Ahead, its subsidiaries and schools operating self-owned learning centers, and (4) the shareholders of Beijing Step Ahead, namely, Mr. Peng Zhang and Mr. Yiding Sun. We hold the required licenses and permits necessary to conduct our junior ELT business in China through the schools controlled by Beijing Step Ahead. We have been, and expect to continue to be, dependent on our consolidated affiliates to operate our junior ELT business. See “Item 4. Information of the Company—C. Organizational Structure” for more information.

As of the date of this annual report, similar ownership structure and contractual arrangements have been used by many China-based companies listed overseas, including a number of education companies listed in the United States. To our knowledge, none of these public companies, including companies in the education industry, have been imposed fines or punishments. However, we cannot assure you that fines or punishments will not be imposed on us or any other companies in the future. If any fines or punishments are imposed on us, our business, financial condition and results of operations could be materially and adversely affected. If any of these penalties results in our inability to direct the activities of Beijing Step Ahead and its subsidiaries and schools that most significantly impact their economic performance, and/or our failure to receive the economic benefits from Beijing Step Ahead and its subsidiaries and schools, we may not be able to consolidate Beijing Step Ahead and its subsidiaries and schools in our financial statements in accordance with U.S. GAAP. However, we do not believe that such actions would result in the liquidation or dissolution of our company, our wholly-owned subsidiaries in China or Beijing Step Ahead or its subsidiaries or schools.

***We face uncertainties with respect to the PRC legal system.***

The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior court decisions in a civil law system may be cited as reference but have limited precedential value. Since 1979, newly introduced PRC laws and regulations have significantly enhanced the protections of interest relating to foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to evolve rapidly, the interpretations of such laws and regulations may not always be consistent, and enforcement of these laws and regulations involves significant uncertainties, any of which could limit the available legal protections.

In addition, the PRC administrative and judicial authorities have significant discretion in interpreting, implementing or enforcing statutory rules and contractual terms, and it may be more difficult to predict the outcome of administrative and judicial proceedings and the level of legal protection we may enjoy in the PRC than under some more developed legal systems. These uncertainties may affect our decisions on the policies and actions to be taken to comply with PRC laws and regulations, and may affect our ability to enforce our contractual or tort rights. In addition, the regulatory uncertainties may be exploited through unmerited legal actions or threats in an attempt to extract payments or benefits from us. Such uncertainties may therefore increase our operating expenses and costs, and materially and adversely affect our business and results of operations.

***Under the PRC Enterprise Income Tax Law, or the EIT Law, we may be classified as a PRC “resident enterprise”, which could result in unfavorable tax consequences to us and our non-PRC shareholders.***

The EIT Law and its implementing rules provide that enterprises established outside of China whose “*de facto* management bodies” are located in China are considered “resident enterprises” under PRC tax laws. The implementing rules define the term “*de facto* management bodies” as a management body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise. On April 22, 2009, the State Administration of Taxation issued Circular 82, which provides that a foreign enterprise controlled by a PRC company or a group of PRC companies will be classified as a “resident enterprise” with its “*de facto* management body” located within China if all of the following requirements are satisfied: (1) the senior management and core management departments in charge of its daily operations function are mainly in China; (2) its financial and human resources decisions are subject to determination or approval by persons or bodies in China; (3) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in China; and (4) at least half of the enterprise’s directors with voting right or senior management reside in China. The State Administration of Taxation issued a bulletin on August 3, 2011 to provide more guidance on the implementation of Circular 82. The bulletin clarifies certain matters relating to resident status determination, post-determination administration and competent tax authorities.

In addition, the State Administration of Taxation issued a bulletin on January 29, 2014 to provide more guidance on the implementation of Circular 82. This bulletin further provides that, among other things, an entity that is classified as a “resident enterprise” in accordance with the circular shall file the application for classifying its status of residential enterprise with the local tax authorities where its main domestic investors are registered. From the year in which the entity is determined to be a “resident enterprise,” any dividend, profit and other equity investment gain shall be taxed in accordance with the EIT Law and its implementing rules.

As the tax resident status of an enterprise is subject to the determination by the PRC tax authorities, if we are deemed a PRC “resident enterprise,” we will be subject to PRC enterprise income tax on our worldwide income at a uniform tax rate of 25.0%, although dividends distributed to us from our existing PRC subsidiaries and any other PRC subsidiaries which we may establish from time to time could be exempt from the PRC dividend withholding tax due to our PRC “resident recipient” status. This could have a material adverse effect on our overall effective tax rate, our income tax expenses and our net income. Furthermore, dividends, if any, paid to our shareholders and ADS holders may be decreased as a result of the decrease in distributable profits. In addition, if we were to be considered a PRC “resident enterprise”, dividends we pay with respect to our ADSs or ordinary shares and the gains realized from the transfer of our ADSs or ordinary shares may be considered income derived from sources within China and be subject to PRC withholding tax, at a rate of 10.0% in the case of non-PRC enterprises or 20.0% in the case of non-PRC individuals, which could have a material adverse effect on the value of your investment in us and the price of our ADSs.

***There are significant uncertainties under the EIT Law relating to the withholding tax liabilities of our PRC subsidiaries, and dividends payable by our PRC subsidiaries to our offshore subsidiaries may not qualify to enjoy certain treaty benefits.***

Under the EIT Law and its implementation rules, the profits of a foreign-invested enterprise generated through operations, which are distributed to its immediate holding company outside China, will be subject to a withholding tax rate of 10.0%. Pursuant to a special arrangement between Hong Kong and China, such rate may be reduced to 5.0% if a Hong Kong resident enterprise owns more than 25.0% of the equity interest in the PRC company. Our current PRC subsidiaries are wholly owned by our Hong Kong subsidiary, Rise HK. Accordingly, Rise HK may qualify for a 5.0% tax rate in respect of distributions from its PRC subsidiaries. Under the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements promulgated on February 20, 2009, the taxpayer needs to satisfy certain conditions to enjoy the benefits under a tax treaty. These conditions include: (1) the taxpayer must be the beneficial owner of the relevant dividends, and (2) the corporate shareholder to receive dividends from the PRC subsidiaries must have continuously met the direct ownership thresholds during the 12 consecutive months preceding the receipt of the dividends. Further, the State Administration of Taxation promulgated the Bulletin on Relevant Issues about the “Beneficial Owner” in Tax Treaties on February 3, 2018, which sets forth certain detailed factors in determining the “beneficial owner” status.

## [Table of Contents](#)

Entitlement to a lower tax rate on dividends according to tax treaties or arrangements between the PRC central government and governments of other countries or regions is subject to the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatment under Tax Treaties, promulgated by the State Administration of Taxation in August 2015, or the SAT Circular 60, which provides that non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. As a result, we cannot assure you that we will be entitled to any preferential withholding tax rate under tax treaties for dividends received from our PRC subsidiaries.

***We may be subject to discontinuation or revocation of any of the preferential tax treatments and government subsidies or imposition of any additional taxes and surcharges.***

Pursuant to the EIT Law, as further clarified by subsequent tax regulations implementing the EIT Law, foreign-invested enterprises and domestic enterprises are subject to EIT at a uniform rate of 25%. Certain enterprises may benefit from a preferential tax rate of 15% under the EIT Law if they qualify as “High and New Technology Enterprise” requiring special support by the state, which qualification shall be re-assessed by the relevant authorities every three years.

Rise Tianjin was recognized as a “High and New Technology Enterprise” in December 2019 and is entitled to enjoy a preferential tax rate of 15%. If Rise Tianjin fails to maintain the “High and New Technology Enterprise” qualification, the applicable EIT rate will increase to 25%.

Rise Tianjin, or the WFOE, became entitled to certain governmental subsidies in 2016 and these governmental subsidies remain effective as of the date of this annual report. Pursuant to the letter agreement that we entered into with the local government in Tianjin, the local government agreed to provide us subsidies based on the value-added tax, business tax and enterprise income tax until 2020. Nevertheless, the government agencies may decide to reduce, eliminate or cancel subsidies at any time. We cannot assure you of the continued availability of the government incentives and subsidies currently enjoyed by the WFOE. The discontinuation of these governmental incentives and subsidies could adversely affect our financial condition and results of operations.

***We face uncertainties with respect to indirect transfers of the equity interests in PRC resident enterprises by their non-PRC holding companies.***

The State Administration of Taxation issued Bulletin on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises, or Bulletin 7, on February 3, 2015. Under Bulletin 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Bulletin 7, “PRC taxable assets” include assets attributed to an establishment in China, real properties in China, and equity investments in PRC resident enterprises. In respect of an indirect offshore transfer of assets of a PRC establishment, the relevant gain is to be regarded as effectively connected with the PRC establishment and therefore included in its enterprise income tax filing, and would consequently be subject to PRC enterprise income tax at a rate of 25.0%. Where the underlying transfer relates to the real properties in China or to equity investments in a PRC resident enterprise, which is not effectively connected to a PRC establishment of a non-resident enterprise, a PRC enterprise income tax at 10.0% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to pay the transfer price shall be responsible for the withholding and payment of such tax. There is uncertainty as to the implementation details of Bulletin 7. If Bulletin 7 was determined by the tax authorities to be applicable to some of our transactions involving PRC taxable assets, our offshore subsidiaries conducting the relevant transactions might be required to spend valuable resources to comply with Bulletin 7 or to establish that the relevant transactions should not be taxed under Bulletin 7.

## [Table of Contents](#)

On October 17, 2017, the SAT issued the Bulletin on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises, or Bulletin 37. Bulletin 37, which became effective on December 1, 2017 and partially amended some provisions in Bulletin 7. Bulletin 37 purports to clarify certain issues in the implementation of the above regime, by providing, among others, the definition of equity transfer income and tax basis, the party which has the withholding obligation, the competent tax authority, the foreign exchange rate to be used in the calculation of withholding amount, and the date of occurrence of the withholding obligation.

As a result, we and our non-PRC shareholders may have the risk of being taxed for the disposition of our ordinary shares or ADSs and may be required to spend valuable resources to comply with Bulletin 7 and Bulletin 37 or to establish that we or our non-PRC shareholders should not be taxed as an indirect transfer, which may have a material adverse effect on our financial condition and results of operations or the investment by non-PRC investors in us.

### ***Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.***

Substantially all of our revenue is denominated in Renminbi. As a result, restrictions on currency exchange may limit our ability to use revenue generated in Renminbi to fund business activities we may have outside China in the future or to make dividend payments to our shareholders and ADS holders in U.S. Dollars. Under current PRC laws and regulations, Renminbi is freely convertible for current account items, such as trade- and service-related foreign exchange transactions and dividend distributions. However, Renminbi is not freely convertible for direct investment or loans or investments in securities outside China, unless such use is approved by SAFE. For example, foreign exchange transactions under our subsidiary's capital account remain subject to significant foreign exchange controls and the registration requirement of SAFE. These limitations could affect our ability to obtain foreign exchange for capital expenditures.

Our PRC subsidiaries are permitted to declare dividends to our offshore subsidiary holding their equity interest, convert the dividends into a foreign currency and remit to its shareholder outside China. In addition, in the event that our PRC subsidiaries liquidate, proceeds from the liquidation may be converted into foreign currency and distributed outside China to our overseas subsidiary holding its equity interest. Furthermore, in the event that Beijing Step Ahead or any of its subsidiaries liquidates, our PRC subsidiary, Rise Tianjin, may, pursuant to the Proxy Agreement executed by Mr. Peng Zhang and Mr. Yiding Sun, require Beijing Step Ahead or any of its subsidiaries to pay and remit the proceeds from such liquidation to Rise Tianjin. Rise Tianjin then may distribute such proceeds to us after converting them into foreign currency and remit them outside China in the form of dividends or other distributions. Once remitted outside China, dividends, distributions or other proceeds from liquidation paid to us will not be subject to restrictions under PRC regulations on its further transfer or use.

Other than the above distributions by and through our PRC subsidiaries which are permitted to be made without the necessity to obtain further approvals, any conversion of the Renminbi-denominated revenue generated by our consolidated affiliates for direct investment, loan or investment in securities outside China will be subject to the limitations discussed above. To the extent we need to convert and use any Renminbi-denominated revenue generated by our consolidated affiliates not paid to our PRC subsidiaries and revenues generated by our PRC subsidiaries not declared and paid as dividends, the limitations discussed above will restrict the convertibility of, and our ability to directly receive and use such revenue. As a result, our business and financial condition may be adversely affected. In addition, we cannot assure you that the PRC regulatory authorities will not impose more stringent restrictions on the convertibility of Renminbi in the future, especially with respect to foreign exchange transactions.

### ***We face fluctuations in the value of the Renminbi.***

The change in value of the Renminbi against the U.S. Dollar and other currencies is affected by various factors, such as changes in China's political and economic conditions. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. Dollar. Under such policy, the Renminbi was permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Later on, the People's Bank of China has decided to further implement the reform of the Renminbi exchange regime and to enhance the flexibility of Renminbi exchange rates. Such changes in policy have resulted in a significant appreciation of the Renminbi against the U.S. Dollar since 2005. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. In the fourth quarter of 2016, the Renminbi has depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the Renminbi appreciated by approximately 7% against the U.S. dollar during this one-year period. After that, Renminbi has been fluctuating against the U.S. dollar and, at certain times, significantly. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further and more significant adjustment of the Renminbi against the U.S. Dollar. Any significant appreciation or revaluation of the Renminbi may have a material adverse effect on the value of, and any dividends payable on, our ADSs in foreign currency terms. More specifically, if we decide to convert our Renminbi into U.S. Dollars, appreciation of the U.S. Dollar against the Renminbi would have a negative effect on the U.S. Dollar amount available to us. To the extent that we need to convert U.S. Dollars we received from our initial public offering or other source of funding into Renminbi for our operations, appreciation of the Renminbi against the U.S. Dollar would have an adverse effect on the Renminbi amount we would receive from the conversion. In addition, appreciation or depreciation in the exchange rate of the Renminbi to the U.S. Dollar could materially and adversely affect the price of our ADSs in U.S. Dollars without giving effect to any underlying change in our business or results of operations.

***Certain PRC regulations, including the M&A Rules and national security regulations, may require a complicated review and approval process which could make it difficult for us to pursue growth through acquisitions in China.***

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, established additional procedures and requirements that could make merger and acquisition activities in China by foreign investors more time-consuming and complex. Although the amendment to the M&A Rules in 2016 generally eased the restrictions imposed on merger and acquisition activities, certain acquisitions of domestic companies by offshore companies that are related to or affiliated with the same entities or individuals of the domestic companies, may remain subject to approval by MOFCOM.

The Anti-Monopoly Law promulgated by the Standing Committee of the National People's Congress, or NPC, on August 30, 2007 (effective August 1, 2008) requires certain concentrated transactions or transactions involving parties above specified turnover thresholds to be reported to MOFCOM. On February 3, 2011, the General Office of the State Council promulgated a Notice on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, which officially established a security review system to monitor such transactions. In addition, the Implementing Rules Concerning Security Review on Mergers and Acquisitions by Foreign Investors of Domestic Enterprises, issued by MOFCOM in August 2011, requires that mergers and acquisitions by foreign investors in "any industry with national security concerns" be subject to national security review by MOFCOM. In addition, any activities attempting to circumvent such review process, including structuring the transaction through a proxy or contractual control arrangement, are strictly prohibited.

There is significant uncertainty regarding the interpretation and implementation of these regulations relating to merger and acquisition activities in China. In addition, complying with these requirements could be time-consuming, and the required notification, review or approval process may materially delay or affect our ability to complete merger and acquisition transactions in China. As a result, our ability to seek growth through acquisitions may be materially and adversely affected.

***PRC regulations relating to foreign exchange registration of overseas investment by PRC residents may subject our PRC resident beneficial owners or our PRC subsidiary to liability or penalties, limit our ability to inject capital into our PRC subsidiary, limit our PRC subsidiary's ability to increase its registered capital or distribute profits to us, or may otherwise adversely affect us.***

SAFE has promulgated regulations, including the Notice on Relevant Issues Relating to Foreign Exchange Control on Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles, or Circular 37, which became effective on July 4, 2014, and its appendices, that require PRC residents, including PRC institutions and individuals, to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a "special purpose vehicle." The term "control" under Circular 37 is broadly defined as the operation rights, beneficiary rights or decision-making rights acquired by PRC residents in offshore special purpose vehicles by such means as acquisition, trust, proxy, voting rights, repurchase, convertible bonds or other arrangements. Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as an increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Further, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for foreign exchange evasion.

## [Table of Contents](#)

These regulations apply to our direct and indirect shareholders who are PRC residents and may apply to any offshore acquisitions or share transfers that we make in the future if our shares are issued to PRC residents. However, in practice, different local SAFE branches may have different views and procedures on the application and implementation of SAFE regulations, there remains uncertainty with respect to its implementation. We cannot assure you that any shareholders or beneficial owners of our company who are PRC residents will be able to successfully complete the registration or update the registration of their direct and indirect equity interest as required in the future. If any of them fail to make or update the registration, our PRC subsidiary could be subject to fines and legal penalties, and SAFE could restrict our cross-border investment activities and our foreign exchange activities, including restricting our PRC subsidiary's ability to distribute dividends to, or obtain loans denominated in foreign currencies from, our company, or prevent us from contributing additional capital into our PRC subsidiary. As a result, our business operations and our ability to make distributions to you could be materially and adversely affected.

### ***We face regulatory uncertainties in China that could restrict our ability to grant share incentive awards to our employees or consultants who are PRC citizens.***

Pursuant to the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in a Stock Incentive Plan of an Overseas Publicly-Listed Company issued by SAFE on February 15, 2012, or Circular 7, a qualified PRC agent (which could be the PRC subsidiary of the overseas-listed company) is required to file, on behalf of "domestic individuals" (both PRC residents and non-PRC residents who reside in China for a continuous period of not less than one year, excluding the foreign diplomatic personnel and representatives of international organizations) who are granted shares or share options by the overseas-listed company according to its share incentive plan, an application with SAFE to conduct SAFE registration with respect to such share incentive plan, and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the share purchase or share option exercise. Such PRC individuals' foreign exchange income received from the sale of shares and dividends distributed by the overseas listed company and any other income shall be fully remitted into a collective foreign currency account in China, which is opened and managed by the PRC domestic agent before distribution to such individuals. In addition, such domestic individuals must also retain an overseas entrusted institution to handle matters in connection with their exercise of share options and their purchase and sale of shares. The PRC domestic agent also needs to update registration with SAFE within three months after the overseas-listed company materially changes its share incentive plan or make any new share incentive plans.

When we grant share options to our employees under our 2016 ESOP Plan or 2017 ESOP Plan, from time to time, we need to apply for or update our registration with SAFE or its local branches on behalf of our employees or consultants who receive options or other equity-based incentive grants under our share incentive plan or material changes in our share incentive plan. However, we may not always be able to make applications or update our registration on behalf of our employees or consultants who hold any type of share incentive awards in compliance with Circular 7, nor can we ensure you that such applications or update of registration will be successful. If we or the participants of our share incentive plan who are PRC citizens fail to comply with Circular 7, we and/or such participants of our share incentive plan may be subject to fines and legal sanctions, there may be additional restrictions on the ability of such participants to exercise their share options or remit proceeds gained from sale of their shares into China, and we may be prevented from further granting share incentive awards under our share incentive plan to our employees or consultants who are PRC citizens.

### ***Labor contract laws and Social Insurance Law in China may adversely affect our results of operations.***

The current PRC labor contract law imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations be based on the mandatory retirement age. In the event we decide to significantly change or decrease our workforce, the Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

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

The PRC economy has been experiencing significant growth, leading to inflation and increased labor costs. China's overall economy and the average wage in China are expected to continue to grow. In addition, we are required by PRC laws and regulations to pay various statutory employee benefits, including pensions, housing fund, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to designated government agencies for the benefit of our employees. It is subject to the determination of the relevant government agencies whether an employer has made adequate payments of the requisite statutory employee benefits, and employers that fail to make adequate payments may be subject to late payment fees, fines and/or other penalties. Future increases in China's inflation and material increases in labor costs and employee benefits may materially and adversely affect our profitability and results of operations unless we are able to pass on these costs to students by increasing tuition.

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

Our business could be materially and adversely affected by natural disasters, such as earthquakes, floods, landslides, tornados and tsunamis, outbreaks of health epidemics such as 2019 Novel Coronavirus, avian influenza, severe acute respiratory syndrome, or SARS, and Influenza A virus, such as H5N1 subtype and H5N2 subtype flu viruses, as well as terrorist attacks, other acts of violence or war or social instability in the regions in which we operate or those generally affecting China. If any of these occur, our learning centers and facilities may be required to temporarily or permanently close and our business operations may be suspended or terminated. Students, teachers and staff may also be negatively affected by such event. In addition, any of these could adversely affect the PRC economy and demographics of the affected region, which could cause significant declines in the number of students in that region and could have a material adverse effect on our business, financial condition and results of operations.

***Our business, financial performance and liquidity position have been, and are expected to continue to be, adversely affected by the COVID-19 outbreak in China, and our historically reported financial information may not be indicative of our operating results or financial condition for 2020.***

In December 2019, the novel coronavirus, or COVID-19, was first reported to have surfaced in Wuhan, China. Subsequent to December 31, 2019, COVID-19 has spread rapidly to many parts of China and other parts of the world. The pandemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and facilities in China and elsewhere. The COVID-19 outbreak and preventative or protective actions taken by the PRC government in respect of this outbreak had caused business disruption, including the temporary closure of our learning centers and offices since late January 2020. The closure of our learning centers in turn resulted in decreases in our new students enrolled and student retention rate, brought challenges to our traditional face-to-face teaching model, and created significant difficulties for tuition collection. As a result, we were unable to recognize revenue for our offline courses for a significant majority of the first quarter in 2020, and cash flow from our operating activities was significantly reduced. In the meantime, certain portion of our operating costs are fixed and remained relatively stable during the outbreak. In addition, we expect to incur further expenses related to COVID-19 even after our offline operations are resumed, as we are required to regularly sanitize our learning centers and offices and implement additional hygiene-related protocols. The English tutoring industry may also become subject to enhanced health and hygiene requirements to deter any future epidemic outbreaks, which may require us to spend a significant amount of money and efforts operating our nationwide learning centers. Therefore, our results of operations and liquidity position have been, and are expected to continue to be, materially and adversely affected, and we expect a net loss for the year ending December 31, 2020.

Our franchisees have similarly experienced business disruptions during the COVID-19 outbreak and their financial performance and liquidity position have also been materially and adversely affected. As a result, our franchise revenues decreased, and certain franchisees sought liquidity support from us. The continued impact of COVID-19 on our franchisees is expected to lead to the overall slowdown of their growth and may even cause financial stress to certain franchisees. Such adverse impact on our franchisees' business will in turn adversely affect our performance and profitability.

Additionally, the weak macroeconomic outlook in China due to the COVID-19 outbreak, including higher unemployment rates, decrease in disposable income and reduced household spending, is expected to have a further adverse effect on our ability to attract new students and retain existing students.

While we have taken proactive measures to accelerate the execution of our digitalization strategy and strengthen our financial position and liquidity position, and have been operating our business in all material aspects online during the closure of our learning centers and offices, we have never previously experienced a complete closure of our learning centers, and our ability to estimate the impact of such disruption on our business and future prospects is therefore limited. In particular, we cannot predict the full impact of the COVID-19 outbreak on our financial performance and liquidity position, especially our cash demands arising from refunds of prepaid tuitions as a result of the prolonged suspension in our offline operations and the public's concerns about the health and safety of students taking offline courses.

As a result, our business, financial performance and prospects have been and may continue to be adversely affected by the COVID-19 outbreak, and our historically reported financial information may not be indicative of our operating results or financial condition for 2020.

***We may be unable to service or refinance our debt, or to comply with the financial and other covenants contained in our loan facility. Failure to comply with such covenants could have an adverse effect on us.***

We have utilized external debt financing during our history of operations. Our existing loan facility contains certain covenants that require us, among others, to maintain certain financial ratios as long as the loans under such facility remain outstanding. Our ability to service our debt and to comply with such financial and other covenants depends on a variety of factors, including, in particular, the results of our operations and our liquidity position. The adverse impact of the COVID-19 outbreak may also result in our failure to comply with such covenants and may affect our ability to service our debt.

## [Table of Contents](#)

If we breach any of these covenants or debt servicing obligations and fail to obtain the lenders' waiver of such breach, we may be required to repay our outstanding loans prior to their scheduled maturity, and we may in turn be required to seek new sources of financing to repay such loans and to satisfy our operational liquidity needs. Our access to funding and the cost of funding will depend on, among other things, global and PRC economic conditions, conditions in the global and Asian financing markets, the availability of financing and our prospects. Future debt financing may include more restrictive covenants, which may further restrict our business operations and financing activities. There is no guarantee that financings will be available in the future to fund our obligations and operations, or that they will be available on terms consistent with our expectations. Additionally, the impact of COVID-19 on the financial markets is expected to adversely affect our ability to raise funds through equity financing. Any failure to comply with the financial and other covenants contained in our existing loan facility, to service our debt, or to obtain new financing at acceptable terms could materially and adversely affect our business, operations, financial conditions and liquidity.

### **Risks Related to Our ADSs**

#### ***The trading price of our ADSs is likely to be volatile, which could result in substantial losses to investors.***

The trading price of our ADSs is likely to be volatile and could fluctuate widely due to factors beyond our control. This may happen because of broad market and industry factors, akin to the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in the United States. A number of Chinese companies have listed or are in the process of listing their securities on U.S. stock markets. The securities of some of these companies have experienced significant volatility, including price declines in connection with their initial public offerings. The trading performances of these Chinese companies' securities after their offerings may affect the perception and attitudes of investors toward Chinese companies listed in the United States in general and consequently may impact the trading performance of our ADSs, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our ADSs may be highly volatile due to a number of factors, including the following:

- regulatory developments affecting us or our industry, and customers of our education services;
- actual or anticipated fluctuations in our quarterly results of operations and changes or revisions of our expected results;
- changes in the market condition, market potential and competition in education services;
- announcements by us or our competitors of new education services, expansions, investments, acquisitions, strategic partnerships or joint ventures;
- fluctuations in global and Chinese economies;
- changes in financial estimates by securities analysts;
- adverse publicity about us;
- additions or departures of our key personnel and senior management;
- release of lock-up or other transfer restrictions on our outstanding equity securities or sales of additional equity securities; and
- potential litigation or regulatory investigations.

Any of these factors may result in large and sudden changes in the volume and price at which our ADSs will trade.

In the past, shareholders of public companies have often brought securities class action suits against those companies following periods of instability in the market price of their securities. If we were involved in a class action suit, it could divert a significant amount of our management's attention and other resources from our business and operations and require us to incur significant expenses to defend the suit, which could harm our results of operations. Any such class action suit, whether or not successful, could harm our reputation and restrict our ability to raise capital in the future. In addition, if a claim is successfully made against us, we may be required to pay significant damages, which could have a material adverse effect on our financial condition and results of operations.

#### ***Substantial future sales or perceived potential sales of our ADSs in the public market could cause the price of our ADSs to decline.***

Sales of substantial amounts of our ADSs in the public market, or the perception that these sales could occur, could adversely affect the market price of our ADSs and could materially impair our ability to raise capital through equity offerings in the future. The ADSs sold in our initial public offering are freely tradable without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining ordinary shares outstanding are available for sale, subject to volume and other restrictions as applicable under Rules 144 and 701 under the Securities Act. We cannot predict what effect, if any, market sales of securities held by our shareholders or the availability of these securities for future sale will have on the market price of our ADSs.

***If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, the market price for our ADSs and trading volume could decline.***

The trading market for our ADSs will depend in part on the research and reports that securities or industry analysts publish about us or our business. If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our ADSs or publishes inaccurate or unfavorable research about our business, the market price for our ADSs would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for our ADSs to decline.

***Because we do not expect to pay dividends in the foreseeable future, you must rely on price appreciation of our ADSs for return on your investment.***

We currently plan to retain most of our available funds and any future earnings after our initial public offering to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an investment in our ADSs as a source for any future dividend income.

Our board of directors has complete discretion as to whether to distribute dividends, subject to applicable laws. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on, among other things, our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. Accordingly, the return on your investment in our ADSs will likely depend entirely upon any future price appreciation of our ADSs. We cannot guarantee that our ADSs will appreciate in value or even maintain the price at which you purchased the ADSs. You may not realize a return on your investment in our ADSs and you may even lose your entire investment in our ADSs.

***We may be a passive foreign investment company for United States federal income tax purposes, which could result in adverse United States federal income tax consequences to United States investors in the ADSs or ordinary shares.***

We will be a “passive foreign investment company,” or PFIC, if, in the case of any particular taxable year, either (1) 75.0% or more of our gross income for such year consists of certain types of passive income, or (2) 50.0% or more of the average quarterly value of our assets during such year produce or are held for the production of passive income. Although the law in this regard is unclear, we treat our consolidated affiliates as being owned by us for United States federal income tax purposes because we exercise effective control over the operation of such entities and we are entitled to substantially all of their economic benefits. Assuming that we are the owner of our consolidated affiliates for United States federal income tax purposes, and based upon our income and assets and the market value of our ADSs we do not believe we were a PFIC for our taxable year ending December 31, 2019. If it were determined, however, that we are not the owner of any of our consolidated affiliated entities for United States federal income tax purposes, the composition of our income and assets would change and we may be a PFIC for the any prior taxable year, the current taxable year, or any subsequent taxable year.

While we do not believe we were a PFIC for the taxable year ending December 31, 2019, whether we are a PFIC must be determined on an annual basis. Accordingly, there can be no assurance that we will not be a PFIC for any future taxable years. The determination of whether we are or will become a PFIC will depend upon the composition of our income (which may differ from our historical results and current projections) and assets and the value of our assets from time to time, including, in particular, the value of our goodwill and other unbooked intangibles (which may depend upon the market value of our ADSs from time-to-time and may be volatile). Among other matters, if our market capitalization declines, we may be a PFIC for the current or future taxable years. It is also possible that the Internal Revenue Service may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being, or becoming, a PFIC for the current taxable year or future taxable years.

The determination of whether we will be or become a PFIC may also depend, in part, on how, and how quickly, we use our liquid assets and cash. Under circumstances where we retain significant amounts liquid assets, including cash, or if our consolidated affiliates were not treated as owned by us for United States federal income tax purposes, our risk of being a PFIC may substantially increase. Because there are uncertainties in the application of the relevant rules and PFIC status is a factual determination made annually after the close of each taxable year, we cannot assure you that we will not be a PFIC for the current taxable year or any future taxable year. If we are a PFIC in any taxable year, a United States Holder (as defined in “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations”) may incur significantly increased United States federal income tax on gain recognized on the sale or other disposition of the ADSs or ordinary shares and on the receipt of distributions on the ADSs or ordinary shares to the extent such gain or distribution is treated as an “excess distribution” under the United States federal income tax rules, and such holders may be subject to burdensome reporting requirements. Further, if we are a PFIC for any year during which a United States Holder holds our ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which such U.S. Holder holds our ADSs or ordinary shares. For more information, see “Item 10. Additional Information—E. Taxation—United States Federal Income Tax Considerations—Passive Foreign Investment Company Rules.”

## [Table of Contents](#)

### ***Our memorandum and articles of association contain anti-takeover provisions that could have a material adverse effect on the rights of holders of our ordinary shares and ADSs.***

Our memorandum and articles of association contain certain provisions that could limit the ability of others to acquire control of our company, including a provision that grants authority to our board of directors to establish and issue from time to time one or more series of preferred shares without action by our shareholders and to determine, with respect to any series of preferred shares, the terms and rights of that series, any or all of which may be greater than the rights associated with our ordinary shares. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. Preferred shares could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preferred shares, the price of our ADSs may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

### ***You may face difficulties in protecting your interests, and your ability to protect your rights through U.S. courts may be limited, because we are incorporated under Cayman Islands law.***

We are an exempted company incorporated under the laws of the Cayman Islands. Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Company Law (2020 Revision) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the common law of England, the decisions of whose courts are of persuasive authority, but are not binding, on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. Some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands. In addition, Cayman Islands companies may not have standing to initiate a shareholder derivative action in a federal court of the United States. The Cayman Islands courts are also unlikely (1) to recognize or enforce against us judgments of courts of the United States based on certain civil liability provisions of U.S. securities laws, or (2) to impose liabilities against us, in original actions brought in the Cayman Islands, based on certain civil liability provisions of U.S. securities laws that are penal in nature. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or large shareholders than they would as public shareholders of a company incorporated in the United States.

### ***Certain judgments obtained against us by our shareholders may not be enforceable.***

We are a Cayman Islands company and all of our assets are located outside of the United States.

Substantially all of our current operations are conducted in China. In addition, a majority of our current directors and officers are nationals and residents of countries other than the United States. Substantially all of the assets of these persons are located outside the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under the U.S. federal securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers.

## [Table of Contents](#)

***Bain Capital Rise Education IV Cayman Limited continues to have significant influence over us in the future, including control over decisions that require the approval of shareholders, which could limit shareholders' ability to influence the outcome of matters submitted to shareholders for a vote.***

We are currently controlled by Bain Capital Rise Education IV Cayman Limited, or Bain Capital. As of December 31, 2019, Bain Capital beneficially owns approximately 59.8% of the voting power of our outstanding shares. As long as Bain Capital owns or controls at least a majority of our outstanding voting power, it will have the ability to exercise substantial control over all corporate actions requiring shareholder approval, irrespective of how our other shareholders may vote, including the election and removal of directors and the size of our board of directors, any amendment of our memorandum and articles of association, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of our assets. Even if its ownership falls below 50% of the voting power of our outstanding voting shares, Bain Capital will continue to be able to strongly influence or effectively control our decisions.

Additionally, Bain Capital's interests may not align with the interests of our other shareholders. Bain Capital is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. Bain Capital may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

***We are a controlled company within the meaning of the Nasdaq listing rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. Our shareholders will not have the same protections afforded to shareholders of companies that are subject to such requirements.***

We are a controlled company within the meaning of the corporate governance standards of the Nasdaq. Under these rules, a company of which more than 50% of the voting power for the election of directors is held by an individual, a group or another company is a controlled company and may elect not to comply with certain corporate governance requirements, including the requirements that, within one year of the date of the listing of ADSs:

- we have a board of directors that is composed of a majority of independent directors, as defined under the NYSE listing rules;
- we have a compensation committee that is composed entirely of independent directors; and
- we have a nominating and governance committee that is composed entirely of independent directors.

***We are a foreign private issuer within the meaning of the rules under the Exchange Act, and as such we are exempt from certain provisions applicable to United States domestic public companies.***

Because we are a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the securities rules and regulations in the United States that are applicable to U.S. domestic issuers, including:

- the rules under the Exchange Act requiring the filing of quarterly reports on Form 10-Q or current reports on Form 8-K with the SEC;
- the sections of the Exchange Act regulating the solicitation of proxies, consents, or authorizations in respect of a security registered under the Exchange Act;
- the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time; and
- the selective disclosure rules by issuers of material nonpublic information under Regulation FD.

We are required to file an annual report on Form 20-F within four months of the end of each fiscal year. In addition, we intend to publish our results on a quarterly basis through press releases, distributed pursuant to the rules and regulations of the Nasdaq. Press releases relating to financial results and material events will also be furnished to the SEC on Form 6-K. However, the information we are required to file with or furnish to the SEC will be less extensive and less timely compared to that required to be filed with the SEC by U.S. domestic issuers. As a result, you may not be afforded the same protections or information, which would be made available to you, were you investing in a U.S. domestic issuer.

## [Table of Contents](#)

***As a company incorporated in the Cayman Islands, we are permitted to adopt certain home country practices in relation to corporate governance matters that differ significantly from Nasdaq corporate governance listing standards; these practices may afford less protection to shareholders than they would enjoy if we complied fully with Nasdaq corporate governance listing standards.***

As a Cayman Islands company listed on the Nasdaq, we are subject to Nasdaq corporate governance listing standards. However, the Nasdaq rules permit a foreign private issuer like us to follow the corporate governance practices of its home country. Certain corporate governance practices in the Cayman Islands, which is our home country, may differ significantly from Nasdaq corporate governance listing standards. A Cayman Islands company is not required to have annual general meetings. Shareholders of Cayman Islands exempted companies like us have no general rights under Cayman Islands law to inspect corporate records (other than the memorandum and articles of association and any special resolutions passed by such companies, and the registers of mortgages and charges of such companies) or to obtain copies of lists of shareholders of these companies. Our directors have discretion under our articles of association to determine whether or not, and under what conditions, our corporate records may be inspected by our shareholders, but are not obliged to make them available to our shareholders. This may make it more difficult for you to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest. Certain corporate governance practices in the Cayman Islands, which is our home country, differ significantly from requirements for companies incorporated in other jurisdictions such as the United States. To the extent we choose to follow home country practice with respect to corporate governance matters such as the exemption from holding an annual general meeting pursuant to Nasdaq Rule 5620(a), our shareholders may be afforded less protection than they otherwise would under rules and regulations applicable to U.S. domestic issuers.

***The voting rights of holders of ADSs are limited by the terms of the deposit agreement, and you may not be able to exercise your right to direct how the ordinary shares represented by your ADSs are voted.***

Our ADS holders do not have the same rights as our registered shareholders. As a holder of our ADSs, you will only be able to exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under the deposit agreement, you must vote by giving voting instructions to the depository. If we instruct the depository to ask for your instructions, then upon receipt of your voting instructions, the depository will try, as far as is practicable, to vote the underlying ordinary shares represented by your ADSs in accordance with your instructions. If we do not instruct the depository to ask for your instructions, the depository may still vote in accordance with instructions you give, but it is not required to do so. Upon receipt of your voting instructions, the depository will vote the underlying ordinary shares in accordance with these instructions. You will not be able to directly exercise your right to vote with respect to the underlying shares unless you withdraw the shares and become the registered holder of such shares prior to the record date for the general meeting. Under our amended and restated memorandum and articles of association, the minimum notice period required for convening a general meeting is seven calendar days. When a general meeting is convened, you may not receive sufficient advance notice to withdraw the shares underlying your ADSs and become the registered holder of such shares to allow you to attend the general meeting and vote with respect to any specific matter or resolution to be considered and voted upon at the general meeting. In addition, under our amended and restated memorandum and articles of association, for the purposes of determining those shareholders who are entitled to attend and vote at any general meeting, our directors may close our register of members and/or fix in advance a record date for such meeting, and such closure of our register of members or the setting of such a record date may prevent you from withdrawing the ordinary shares underlying your ADSs and becoming the registered holder of such shares prior to the record date, so that you would not be able to attend the general meeting or to vote directly. If we ask for your instructions, the depository will notify you of the upcoming vote and will arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depository to vote your shares. In addition, the depository and its agents are not responsible for failing to carry out voting instructions or for their manner of carrying out your voting instructions. This means that you may not be able to exercise your right to vote and you may have no legal remedy if the shares underlying your ADSs are not voted as you requested.

## [Table of Contents](#)

***The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders' meetings, except in limited circumstances, which could adversely affect your interests and the ability of our shareholders as a group to influence the management of our company.***

Under the deposit agreement for the ADSs, if you do not vote, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders' meetings unless:

- we have failed to timely provide the depositary with notice of meeting and related voting materials;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting; or
- a matter to be voted on at the meeting would have a material adverse impact on shareholders.

The effect of this discretionary proxy is that if you do not vote at shareholders' meetings, you cannot prevent our ordinary shares underlying your ADSs from being voted, except under the circumstances described above. This may make it more difficult for shareholders to influence the management of our company. Holders of our ordinary shares are not subject to this discretionary proxy.

***You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.***

The depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depositary may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

***You may experience dilution of your holdings due to inability to participate in rights offerings.***

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to all holders of ADSs, or are registered under the provisions of the Securities Act. The depositary may, but is not required to, attempt to sell these undistributed rights to third parties, and may allow the rights to lapse. We may be unable to establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, holders of ADSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

***You may be subject to limitations on the transfer of your ADSs.***

Your ADSs are transferable on the books of the depositary. However, the depositary may close its books at any time or from time to time when it deems expedient in connection with the performance of its duties. The depositary may close its books from time to time for a number of reasons, including in connection with corporate events such as a rights offering, during which time the depositary needs to maintain an exact number of ADS holders on its books for a specified period. The depositary may also close its books in emergencies, and on weekends and public holidays. The depositary may refuse to deliver, transfer or register transfers of our ADSs generally when our share register or the books of the depositary are closed, or at any time if we or the depositary thinks it is advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***We will incur increased costs as a result of being a public company, particularly after we cease to qualify as an “emerging growth company.”***

We are a public company and expect to incur significant accounting, legal and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, as well as rules subsequently implemented by the SEC and the Nasdaq, have detailed requirements concerning corporate governance practices of public companies. Currently we are an “emerging growth company” pursuant to the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other requirements that are otherwise applicable generally to public companies. These provisions include exemption from the auditor attestation requirement under Section 404 of the Sarbanes-Oxley Act of 2002, in the assessment of the emerging growth company’s internal control over financial reporting. The JOBS Act also permits an emerging growth company to delay adopting new or revised accounting standards until such time as those standards apply to private companies. After we are no longer an “emerging growth company,” we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the other rules and regulations of the SEC.

**ITEM 4. INFORMATION OF THE COMPANY**

**A. History and Development of the Company**

RISE Education Cayman Ltd is a holding company without substantive operations and we conduct our operations primarily through PRC entities, including our variable interest entity, or VIE, and its subsidiaries and schools. Our first self-owned learning center opened in Beijing in October 2007. Over the last ten years, we have expanded our network of learning centers across China, including Shanghai in March 2010, Guangzhou in September 2012, Wuxi in June 2013, Shenzhen in May 2014, Foshan in December 2017 and Shijiazhuang in July 2019. We also expanded our business to Hong Kong and Singapore through acquiring 100% equity interest of Edge Franchising Co., Ltd, or the Edge, from Edge Learning Centers Limited during the fourth quarter of 2017 (the “Edge acquisition”). As of December 31, 2019, we had a total number of 472 learning centers, including 469 learning centers across 154 cities throughout China, two learning centers in Hong Kong and one learning center in Singapore, which consists of 89 self-owned learning centers operated by us and 383 franchised learning centers operated by our franchise partners through franchise arrangements.

In July 2013, Bain Capital Rise Education II Cayman Limited, or RISE Education, our current holding company, was incorporated as an exempted company under the laws of the Cayman Islands, and it was renamed as RISE Education Cayman Ltd in June 2017.

In July 2013, Rise IP (Cayman) Limited, or Rise IP, was incorporated as an exempted company under the laws of the Cayman Islands. Subsequently, a number of our wholly owned subsidiaries were established to acquire Rise IP and certain operating assets and entered into a series of contractual arrangements with Beijing Step Ahead Education Technology Development Co., Ltd., or Beijing Step Ahead or our VIE, its schools and its shareholders. As a result, the VIE and its subsidiaries and schools have become our consolidated affiliates. See “—C. Organizational Structure—Contractual Arrangements among Our VIE, Its Schools, Its Shareholders and Us”.

Our principal executive offices are located at Room 101, Jia He Guo Xin Mansion, No.15 Baiqiao Street, Guangqumennei, Dongcheng District, Beijing 100062, People’s Republic of China. Our telephone number at this address is +86 10-8559 9000. Our registered office in the Cayman Islands is at the offices of Maples Corporate Services Limited at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our agent for service of process in the United States is Cogency Global Inc., located at 10 East 40th Street, 10th Floor, New York, N.Y. 10016. Our website is [en.risecenter.com](http://en.risecenter.com).

### **Initial Public Offering**

We listed our ADSs on the NASDAQ Global Market under the symbol “REDU” on October 20, 2017. On October 24, 2017, we completed the initial public offering of 11,000,000 ADSs, and the underwriters exercised their over-allotment option on the same date for the purchase of an additional 1,650,000 ADSs.

### **Follow-on Public Offering**

On June 11, 2018, we completed the follow-on public offering of 7,000,000 ADSs by the selling shareholders of our company. On July 11, 2018, the sole underwriter exercised its over-allotment option to purchase an additional 585,000 ADSs from the selling shareholders.

## **B. Business Overview**

### **Overview**

We are a leading service provider in China’s junior ELT market, which refers to after-school English teaching and tutoring services provided by training institutions to students aged three to 18. We pioneered the “subject-based learning” teaching philosophy in China, whereby various subject matters, such as language arts, math, natural science and social science are used to teach English. Our course offerings use interactive courseware to create an immersive English learning environment that helps students learn to speak and think like a native speaker. In addition, our curricula are designed to foster leadership and critical thinking skills in students while developing their self-confidence and sense of independence. This innovative and holistic approach to teaching English is increasingly attractive to Chinese parents who are looking for alternatives to traditional ELT programs in China, which are more test-oriented.

We had 25,862 and 29,049 new students enrolled in 2018 and 2019, respectively, and 49,365 and 54,383 students in class as of December 31, 2018 and 2019, respectively, for our regular courses at self-owned learning centers. We currently offer three flagship courses, namely Rise Start, Rise On and Rise Up, that are designed for students aged three to six, seven to 12 and 13 to 18, respectively. The curricula of Rise Start and Rise On use courseware that we have licensed from Houghton Mifflin Harcourt Publishing Company, or HMH, a leading American educational publisher, along with other self-developed content, while the curriculum of Rise Up is primarily based on our self-developed content. We also offer a number of complementary products to further enhance our students’ learning experience, including Can-Talk, Rise Library Online, Rise Camp, Rise Workshop and Rise Overseas Study Tour. In addition, our courses and services have been extended to academic tutoring, test preparation and admissions consulting.

We devote significant resources to curriculum development to ensure that our course offerings are up-to-date, engaging and effective. We also focus on teacher training through a set of rigorous and systematic processes and programs so that teachers in both self-owned learning centers and franchised learning centers are able to deliver our curricula at a level consistent with our standards. As of December 31, 2019, we had 2,315 teachers in self-owned learning centers. The quality of our course offerings and our unique teaching philosophy has helped us develop a strong and powerful brand that is attractive to parents.

### **The Rise Model**

Our teaching model is designed to promote the all-around growth of students. We believe every student is unique in their abilities, interests and personalities. We have developed a holistic approach to learning that promotes both the academic advancement and personal development of students in an immersive English-language environment. We offer subject-based courses in English that utilize various subject matters as the medium for English language instruction. Our courses are also designed to focus on skills such as public speaking, project management, and critical thinking and cultivate personal attributes such as leadership, teamwork, creativity and confidence. This unique model allows students to accumulate subject matter knowledge while also developing their language capabilities and strengthening important personal traits.

### ***Our Teaching Philosophy***

Our goals as educators are to further the academic progress and personal development of each student. We believe the aspects of our model listed below are critical to achieving these goals.

## [Table of Contents](#)

### *Subject-based courses*

We use a subject-based approach to teaching English by using various subject matters such as language arts, math, natural sciences and social sciences, as the medium through which students accumulate language skills. Rather than learning the language itself through vocabulary, grammar, and syntax, students learn to use the language as a means to understand a variety of subject matters. This allows students to learn English while acquiring a variety of additional academic knowledge to complement their formal schooling. Moreover, subject-based learning trains students to comprehend and use English in a more natural and contextualized manner while making the learning process more intuitive, interesting and enjoyable.

### *Immersive learning*

We deliver our products entirely in English. This compels students to approach and use English as a medium for communicating thoughts and ideas, rather than as a separate subject. This type of immersive learning gives students the opportunity to develop a deeper and more comprehensive understanding of the English language and helps students to not only achieve English language proficiency but also gain the ability to think and converse in English more naturally and in a manner similar to that of native speakers. Our parents are attracted to this novel approach to English instruction as they often learned English in a more rigid and traditional setting that did not provide them with the necessary context and understanding of the various nuances of the language.

### *Leadership training*

Leadership and other soft skills are core focuses for us. Students are able to develop confidence, teamwork, collaboration, independent thinking, problem-solving, presentation and project management skills through both in-class and extra-curricular projects. Students are encouraged to speak in front of their peers in class as well as engage in a number of group projects to solve problems creatively. We believe these aspects of our products are particularly attractive to Chinese parents who increasingly believe these skills are an important contributor to the future success of their children.

### *Teaching Methodologies*

We apply standardized course modules and teaching procedures in courses and across all self-owned and franchised learning centers, with teachers acting as facilitators throughout the process.

### *Technology-based teaching tools*

We provide teachers in our learning centers and those in franchised learning centers with various technology-based teaching tools to allow them to more efficiently deliver our products to students. For instance, our multimedia and interactive lessons include content that is in standard American English pronunciation and intonation. We also use interactive white boards instead of textbooks to keep students engaged and to promote dynamic interaction in the classroom. We also have Rise V-World, a complementary study tool using virtual reality (VR) and augmented reality (AR) technology, which combines more recreational with educational elements to reinforce concepts taught in our courses and encourage students to apply their new knowledge to real-world situations through a variety of fun and challenging scenarios. Making technology available to our teachers and in the classroom is a critical component in maintaining quality control over our network of learning centers and ensures that all students have a similar experience.

### *Interactive learning*

We utilize multiple interactive teaching methodologies to facilitate the learning process. Our courseware, classroom scenarios, classroom displays, teaching tools and learning materials are designed to promote student interaction with each other and teachers. Students also participate in interactive in-class activities such as debates, crafts and role plays, which effectively enhance learning results. We believe that interactive learning is more enjoyable to students, is better able to maintain their attention throughout the class, and is more effective at conveying important or complicated ideas, especially in the study of a foreign language.

### *Cooperative learning*

Teachers are important in implementing our standardized teaching tools and curricular. They organize and manage class activities based on the principles of teamwork and accountability. We believe this methodology of teaching is especially appealing to younger Chinese parents, the majority of whom have grown up without siblings and in a school system that traditionally emphasizes individual achievement and competition among students.

## [Table of Contents](#)

### *Project-based learning*

Our curricular require students to participate in a variety of projects where students are assigned different team roles and tasks based on their interests. Students use study tools that we have developed to complete various tasks, including conducting research projects, collecting data and making presentations. During the process, students learn how to set goals, manage projects and complete complicated tasks through collaboration. Project-based learning also encourages students to exercise creativity and to think outside the box, important skills that parents value, yet and are often under addressed by China's traditional education system.

### *Independent thinking and problem solving*

In order to cultivate the ability of students to think independently and develop problem solving abilities, we have implemented a series of distinctive teaching methodologies. For instance, our Thinking Graphic Organizer helps students develop and express their ideas through visual representations such as webbing, flow charts and mind maps. Four-Step Problem Solving is another teaching methodology we use to help students systematically understand and solve math problems, which includes understanding the problem, devising a plan, carrying out the plan, and verifying the results. These methods are useful in helping students develop the ability to understand and solve problems on their own, endowing them with important life skills that go far beyond rote memorization and testing skills.

### *Flagship Course Offerings*

All our courses are developed based on our teaching philosophy and methodologies, and designed to improve each student's independent learning, leadership and critical thinking skills. It also helps students with their reading, writing, science and cultural awareness, and helps them to become "global citizens."

We offer incremental courses to students, starting each at an appropriate level and elevating them to more advanced courses. Currently our three flagship courses are Rise Start, Rise On and Rise Up targeting students in preschool, elementary school and middle school from the ages of three to six, seven to twelve, and thirteen to eighteen, respectively. Students in both self-owned learning centers and franchised learning centers are able to enroll in these courses.

We use standardized interactive curricular for our courses. The curriculum of Rise Start and Rise On uses HMH courseware along with other self-developed content, while Rise Up is primarily based on our self-developed curriculum. We have also developed more than 481 proprietary study tools for Chinese students, including scripted lesson plans for teachers, interactive courseware, practice or activity books for students and home application materials for families. By standardizing the curricular and related study tools used in each of our courses, we are able to ensure a consistent quality in each of our courses. This ability to control the quality of each class through standardized instruction is especially important as we expand our business to additional learning centers, especially franchised learning centers.

### *Rise Start*

Rise Start is an offline course for preschool students ranging from the ages of three to six. Rise Start aims to help students develop good learning habits and learn through play, focusing on interaction, discovery and experience. In Rise Start, students are given age-appropriate lessons in English about subjects such as social studies, language arts, math and science. Rise Start consists of a total of approximately 190 course hours during an academic year, in which students come to learning centers once or twice each week, usually for up to two to four hours each time. Because students at this age have not yet begun their formal schooling, Rise Start students typically attend in the mornings and afternoons, utilizing our premises during the times in which the older students otherwise are not able to due to formal schooling.

### *Rise On*

Rise On is an offline course for elementary school students from the ages of seven to twelve. Rise On strengthens student abilities across a variety of subject areas while emphasizing self-reliance and problem solving skills. Rise On students learn in English about subjects such as social studies, language arts, math and science. Rise On consists of a total of approximately 180 course hours, which students usually attend in afternoons and evenings, after they have completed their formal school day, or on the weekends.

## [Table of Contents](#)

### *Rise Up*

Rise Up is a course developed for secondary school students from the ages of thirteen to eighteen, which is conducted primarily online. In addition to core skills that all of our course offerings foster, it also helps our students with standardized middle and high school test preparation. Rise Up consists of a total of approximately 170 online course hours using self-guided modules, which provides great flexibility to fit in the schedule of students, as well as approximately 40 online tutorial sessions with native English-speaking teachers. Rise Up students are also required to attend an intensive 15-day offline study camp comprising approximately 90 course hours every summer for additional training and to practice skills that cannot easily be done online. In the fourth quarter of 2017, American High School Program was added to our Rise Up curriculum. This program was jointly hosted by us and a public education school in the United States. American High School Program applies United States standardized learning materials, through which Chinese students learn American high school credited core courses taught by American high school teachers both online and offline. This program aims to facilitate our students in preparation for admission by top United States universities for their higher education.

In addition to our flagship courses, we also offer short-term programs to our existing students as complementary services to our flagship courses.

### ***Our Complementary Products***

We also offer a series of complementary products to students from both self-owned learning centers and franchised learning centers, including online products Can-Talk and Rise Library Online, and offline products Rise Camp, Rise Workshop and Rise Overseas Study Tour. After the Edge acquisition, we also began to offer academic tutoring, test preparation and admissions consulting services.

### *Can-Talk*

Can-Talk is a systematical online product that we launched in May 2017. Through Can-Talk, students receive one-on-one lessons from native English speaking teachers, who are all certified by Teaching English to Speakers of Other Languages (TESOL), Teaching English as Foreign Language (TEFL), or Teach English as a Second Language (TESL). As part of our efforts to develop and promote our Online-Merge-Offline (“OMO”) business model, Can-Talk is to be integrated into our comprehensive online product portfolio and cease to be a standalone product.

### *Rise Camp and Rise Workshop*

Rise Camp and Rise Workshop strive to cultivate students’ language skills by encouraging them to apply the English skills they develop during class into real-life situations. These programs take place in various domestic locations that provide an immersive learning environment for students aged four or above to practice with native English speaking teachers. Rise Camp is a theme-based camp typically hosted in summer or winter. For instance, in the spring of 2019, we hosted an artificial intelligence (AI) camp in Beijing where students learned about drone-related technology, artificial intelligence, coding and related science-based topics. Rise Workshop is typically organized during weekends or public holidays with a theme related to arts, social sciences and other topics that students are interested in, with a size of fifteen to twenty students per workshop. Rise Camp and Rise Workshop help students not only improve their English and extra-curriculum knowledge, but also their cooperation and communication skills by working together with group members to accomplish goals and complete tasks. We initiated Rise Camp and Rise Workshop in 2016, and in 2019, we have hosted a total number of 36 camps and workshops where an aggregate of approximately 637 students had participated.

### *Rise Overseas Study Tour*

For students age four or above who wish to experience overseas studying, we organize tours for them to attend classes in preschools, elementary schools and middle schools primarily in the United States and Canada. We act as the operator for this program through cooperation with third party travel agencies and set the price for the tours. Each tour typically lasts for two to three weeks and usually takes place during the summer or winter. Similar to Rise Camp and Rise Workshop, for students younger than seven, parental presence is required. We have organized tours in approximately 40 overseas schools to provide a wide range of options to students, who can attend various classes with native English speaking students under supervision of teachers in those schools. Moreover, students have the opportunity to mingle with local families after class and gain real-life language exposure and have a better understanding of cultures in English speaking countries. We began offering Rise Overseas Study Tours in 2012, and approximately 769 and 721 students participated in our tours in 2018 and 2019, respectively.

## [Table of Contents](#)

### *Academic Tutoring, Test Preparation and Admission Consulting*

Our academic tutoring courses help students on their academic subjects, and testing preparation courses help students in preparing tests such as SAT and ACT. We also provide consulting services to students in application for admissions to overseas colleges. In 2018, we established a strategic partnership with the Enrollment Management Association and became the exclusive on-site learning institute in China for the Secondary School Admission Test, or SSAT.

### **Research and Curriculum Development**

We have devoted significant resources to research and curriculum development, which are reflected in the quality of our course materials and effectiveness of our teaching methodologies. We use courseware consisting of course models and content licensed from HMH as the base of our Rise Start and Rise On courses and have developed complementary products to meet the needs of our students and take advantage of technological advancements. We frequently revise and upgrade our complementary products and have recently added several short-term courses to optimize our curricula.

### **Course Materials Based on HMH Licensed Courseware**

A portion of the courseware that we use in our Rise Start and Rise On courses is licensed from HMH. Pursuant to license arrangements with HMH, we have an exclusive, subject to certain pre-existing third party rights, and royalty-free right to use certain HMH courseware developed before October 2011 in China permanently for after-school tutoring services for the primary purpose of teaching the English language to non-native English speaking students. Courseware developed by HMH helps students learn important subjects using simple English words and phrases, while also allowing us to easily standardize our courses across all learning centers.

In accordance with our rights under our license arrangements with HMH, we have developed various derivative products based on this HMH courseware, including certain tailored lesson plans for teachers, practice and activity books for students and after-class materials for parents and students to enhance interaction and study at home.

### **In-house Curriculum Development**

We have a dedicated research and curriculum development team based in Beijing, with an average of over six years of relevant experience. Through workshops, trainings and international cooperation, our curriculum research and development team has successfully developed approximately 9,085 course hours and 481 course materials.

All of our supplementary curricula are developed in-house. It typically takes about three months to twelve months to develop our new curriculum.

Our in-house curriculum development process includes three phases. During the first, or pre-development phase, we collect data and information on various potential products that we are considering and we seek feedback on those products from as many as 500 teachers, students and parents. We also conduct at least three rounds of professional consulting with academic experts and consultants on the proposed new course material. During the second, or development phase, our in-house professionals develop a new course proposal to be evaluated by our management and based on their feedback, these professionals revise the proposal and re-submit for approval. After the initial development is complete, we discuss each version across our various departments, a process that involves between 50 and 100 employees, in order to provide feedback to the development team and begin focusing on a final version. We repeat the cross-department review process at least three times during the development phase. During the final, or post development stage, we collect feedback from between 1,000 to 3,000 individuals, including teachers, course consultants, professors, students and parents, before we finalize the new course material.

## [Table of Contents](#)

### **External Courseware Development**

We have engaged a third-party vendor in Ireland with significant experience in developing educational products to assist in our curriculum development. We use this vendor to develop complete courses for us, such as Rise Up Levels 1 and 2, and the curriculum development process is interactive and follows our standards. As of December 31, 2019, this vendor has developed the course materials for 531 course hours and 697 videos for us. We own the intellectual property rights for all course materials this vendor develops for us, and we pay them service fees based on the number of hours of developed courses.

### **Advisory Board**

We have established an advisory board consisting of several reputable experts, including scholars, professionals and government officers in China's domestic and the international education industry. These experts have an average of twenty years' experience in education, research or English language teaching, and regularly provide high-level advice on education-related matters. These experts offer valuable advice on curriculum development, teaching quality, and other matters that effectively enhance our teaching and operating standards.

### **Our Learning Center Network**

We operate self-owned learning centers through our consolidated affiliates including schools and a non-school enterprise in China, and cooperate with our franchise partners to operate the franchised learning centers across China. We also expanded our business to Hong Kong and Singapore through the Edge acquisition during the fourth quarter of 2017.

Our first learning center opened in Beijing in October 2007. In the same year, we agreed with our first franchise partner to open the first franchised learning center in Chongqing. Since then we have expanded our learning center network of both self-owned and franchised learning centers rapidly, and have opened an average of 77 new learning centers per year during the past three years. As of December 31, 2019, we had a network of 469 learning centers across 154 cities throughout China, two learning centers in Hong Kong and one learning center in Singapore, of which 89 were self-owned and 383 were operated by our franchise partners, and among our 89 self-owned learning centers, 39 were located in Beijing, 17 in Shanghai, nine in Guangzhou, 11 in Shenzhen, two in Foshan, two in Wuxi, seven in Shijiazhuang and two in Hong Kong.

The table below illustrates the expansion of our learning center network by showing the number of learning centers as of the dates indicated.

|                        | <u>As of December 31,</u> |             |             |
|------------------------|---------------------------|-------------|-------------|
|                        | <u>2017</u>               | <u>2018</u> | <u>2019</u> |
| Self-owned             | 64                        | 76          | 89          |
| Franchised             | 206                       | 304         | 383         |
| Total learning centers | 270                       | 380         | 472         |

### **Self-owned Learning Centers**

Our 89 self-owned learning centers are mostly located in China's tier-one cities, such as Beijing, Shanghai, Shenzhen and Guangzhou, as well as certain other selected cities, such as Wuxi and Foshan. We also operate two learning centers in Hong Kong.

Our self-owned learning centers range between approximately 500 and 2,000 square meters in size, and can typically accommodate up to approximately 1,000 students. Our largest learning center, located in Beijing, is able to accommodate approximately 2,000 students. We lease all of the premises that hold our learning centers and prefer to enter into lease agreements of at least five years where possible. Our learning centers are usually located in shopping malls or other commercial centers, as this helps to attract new potential students and is usually more convenient to our students and their parents.

## Table of Contents

We are responsible for all of the operations of our self-owned learning centers. We implement strict quality control measures to make sure each self-owned learning center is a safe, clean and friendly environment. We have established various processes to maintain high standards and quality within all of our self-owned learning centers. For instance, we have centralized the processes for teacher recruitment, teacher training, online marketing and branding, while adopting local quality control mechanisms in areas such as offline marketing. Each self-owned learning center has a principal who is experienced in education, adheres to our education philosophy, and implements our quality control system. We also have dedicated academic supervisors at each learning center who are responsible for teaching quality. Each school also will always have at least one staff member that is trained in first aid to ensure the safety of our students.

It generally takes us about three months to establish a new self-owned learning center after we have confirmed lease arrangements for the site. We thoroughly evaluate a site for a new learning center and consider factors including customer traffic, local competition, household income, student recruitment projections, staffing requirements and cost estimates. We typically initiate regulatory approval procedures, including school license and registration with local educational authorities, immediately after the lease agreement is signed. We also conduct financial analysis to estimate return on investment, breakeven point and other key financial indicators before deciding to open any new learning center.

The table below sets forth the major steps involved in opening a new learning center.

|                                     |   |
|-------------------------------------|---|
| 6 months to 1 year prior to opening | <ul style="list-style-type: none"><li>• Seek suitable site and negotiate leasing arrangements</li></ul>   |
| 3 months prior to opening           | <ul style="list-style-type: none"><li>• Sign leasing agreement</li><li>• Initiate regulatory approval procedures</li></ul>  |
| 2 months prior to opening           | <ul style="list-style-type: none"><li>• Begin designing and remodeling center interior</li><li>• Hire principal and other supervisors</li><li>• Begin hiring teachers and other staff</li><li>• Conduct market research to formulate marketing plan</li></ul> |
| 1 month prior to opening            | <ul style="list-style-type: none"><li>• Begin team building process and teacher training</li><li>• Advertising and promotions</li><li>• Technology checks</li></ul>   |
| Opening                             | <ul style="list-style-type: none"><li>• Opening ceremony</li><li>• Enroll students and begin classes</li></ul>  |

We intend to expand the coverage of our self-owned learning centers through a combination of opening new ones in tier-one cities or close to tier-one cities with good economic market conditions across China and acquiring controlling interests in existing franchised learning centers in promising markets. On November 11, 2018, we entered into an agreement with one of our existing franchise partners in Shijiazhuang (the “Shijiazhuang Franchisee”), Hebei Province, PRC, pursuant to which we purchased, as of July 1, 2019, 51% of equity interests in the seven learning centers operated by the Shijiazhuang Franchisee in Shijiazhuang with a total of approximately 3,500 students (the “Shijiazhuang acquisition”). We have fully consolidated the business of these seven learning centers since the third quarter of 2019, and have been managing the seven learning centers in the same way as our other self-owned learning centers.

### ***Franchised Learning Centers***

We have strategically adopted the franchise model to quickly expand the network of learning centers to non-tier-one cities. We also have a franchised learning center in Singapore.

## [Table of Contents](#)

Our criteria in selecting franchise partners include their financial capacity, commitment to education and experience in running education centers. We typically enter into franchise agreements with an initial term of five years with franchise partners and if any franchise agreement needs to be renewed, it will typically be renewed for an additional five-year period. We charge each franchise partner recurring franchise fees based on an agreed percentage of each franchised learning center's collected tuition fees and also related individual course materials fees.

Potential new franchise partners are required to submit proposals to us containing site selection, market research and plans, anticipated number of students and potential number of learning centers. We have complete discretion in determining whether to accept an applicant as our franchise partner and execute a franchise agreement with them. Our franchise partners are responsible for all of the preparations in opening a new school, including site selection and leasing, interior design based upon our standards, installing all necessary equipment, hiring teachers and staff and recruiting students. Under the franchise model, our franchise partners purchase course materials and textbooks from us, and follow our standardized management system for franchised learning centers in their classroom instructions, their pricing and subsequent price adjustment, typically reviewed on an annual basis, are subject to our approval and we provide centralized training to their teachers and management team. We typically do not participate in the day-to-day operations of franchised learning centers.

We monitor operating results of franchised learning centers. Our franchise partners are required to submit to us the statistics of student enrollments in each franchised learning center on a monthly basis. We have a franchise management department of around 30 employees who continually monitor operating condition of each franchised learning center. Should the operating or financial situation of any franchised learning center deteriorate, our franchise management department may suggest plans for improvement to the franchise partner, and we may decide not to renew the franchise agreement with that franchise partner upon expiration if the situation does not improve. In addition, if any franchise partner fails to find a location within two months after signing the franchise agreement, or fails to open a new learning center within four months after signing the franchise agreement, we are entitled to terminate the franchise agreement. As of December 31, 2019, over 71% of our existing franchise partners have operated their franchises for more than five years.

Moreover, we have introduced a centralized online tracking system which all of franchised learning centers are required to install and use. As of the date of this annual report, a majority of our franchised learning centers have been equipped with this system by the end of 2019, which allows us to monitor the financial and operating results of the franchised learning centers in real time. The remaining franchised learning centers are still in the process of implementing the system, which is expected to complete by the end of 2020.

### ***Standardized Management***

We have established a standardized management system and process through which we manage and oversee important aspects of our self-owned and franchised learning centers across our network, including learning center administration, supply procurement and the development and sharing of teaching resources. By doing so, we are able to support and facilitate the management of both self-owned and franchised learning centers in an efficient manner as well as ensure consistency in the quality of our education.

#### *Sharing and development of standardized teaching resources*

To increase the effectiveness and consistency of teaching quality across learning centers, we have unified our teaching goals, guidelines and materials and courseware at each stage of our courses offered in all self-owned and franchised learning centers. By following these unified guidelines, we make it easy for teachers to effectively teach students in a manner that adheres to our teaching philosophy. Our standardized teaching resources are attractive to parents as they provide them with certainty that their children will be participating in structured and effective lessons prepared by education experts regardless of the learning center or the class their children attend. By unifying our teaching materials, it also makes it easier for us to monitor learning results across all of our learning centers and make adjustments and improvements to our materials and resources as needed.

#### *Centralized teacher training and academic assessment*

We have standardized teacher training and academic assessment systems for all teachers employed at both self-owned and franchised learning centers.

## [Table of Contents](#)

All teachers are required to participate in mandatory and ongoing training at our headquarters, both at their respective learning centers and online. These training programs help all teachers deepen their understanding of our teaching philosophy, and enhance their skills in better utilizing our teaching resources and providing each student with a quality and effective learning experience.

We assess the academic performance of each teacher on a quarterly basis. Our teacher assessment standards include a number of factors, including teaching performance, written test results, English proficiency and communication skills.

### *Learning center operation*

We have adopted a centralized online tracking system to monitor the daily operation of each self-owned learning center. This system tracks important aspects of the each school's operations, such as students in class and new students enrolled, renewals, teacher staffing and certain operating costs. We conduct periodic reporting meetings with the principals and academic supervisors of each learning center to review results and discuss how to enhance operational performance. We have also unified the design and decorations in all of self-owned learning centers, as well as the procurement procedures and standards for most aspects of the establishment and operation of our learning centers, including computers, desks and chairs, uniforms and other equipment.

### *Learning results assessment*

We also have standardized procedures to monitor and track student's learning results. Teachers are trained to record each student's performance in class in a systemic method for further tracking and review. We have quarterly academic examinations and benchmark online tests to monitor each student's learning progress.

### *Parent communications*

We have standardized the procedures and contents of communication with the parents of students in all self-owned learning centers. We assign at least one teacher in each class to keep regular communications with the parents, including providing updates on their child's progress, following up with after-class homework of the students, collecting feedbacks from parents and recommending new products to the parents.

## **Our In-house Technology Platform - Rise+**

We developed and launched our online platform, Rise+ (formerly known as Rise Plus), in 2018. Rise+ was initially developed as a mobile application to offer after-class learning support to our students, to enrich our students' after-class learning experiences, to facilitate parent supervision and to facilitate effective communications between our teachers, parents and students. Leveraging on our growing technology capabilities, we have transformed Rise+ in early 2020 into an interactive open platform capable of offering:

- live interactive courses, together with self-adaptive performance appraisal and tailored assistance;
- various types of learning resources, such as Rise Library Online, rTunes, Jelly phonics, Go for Grammar, Spelling Star, Rise+ Studio and Magic Grammar, through multi-functional capacities;
- efficient communication channels, which enable parents to communicate with teachers and keep track of their children's learning performance and study goals; and
- simplified procedures for tuition payment and class enrollment through the mobile application.

In the first quarter of 2020, in response to the challenges brought by the COVID-19 outbreak in China, we launched our online small group classes on our Rise+ platform. As of the date of this annual report, we have developed more than 400 online lessons, which were offered to all of our students in 144 cities across China. At peak times, our Rise+ platform supports over 7,200 students concurrently taking classes in 1,400 virtual class rooms while being in stable operation. We plan to continue to invest in our Rise+ platform to enrich the learning experience of our students and accelerate our transformation to a digitalized, cross-disciplinary OMO model.

As of December 31, 2019, Rise+ had a total number of more than 126,000 registered users.

## [Table of Contents](#)

### **Students**

We had 25,862 and 29,049 new students enrolled in 2018 and 2019, and 49,365 and 54,383 students in class as of December 31, 2018 and 2019, respectively, for our regular courses at self-owned learning centers.

We consider students' English abilities and ages before placing students in appropriate courses and track their performance during our course offerings. We believe our courses are effective in enhancing the English language skills of students. For example, in a group of our Grade 6 students that took the TOEFL Junior Tests, 73.3% achieved a result that surpassed the median score for Grade 6 native English-speaking students in the United States that took the same exam.

### **Teachers**

As of December 31, 2017, 2018 and 2019, we had a total of 1,543, 1,911 and 2,315 teachers, respectively, employed by self-owned learning centers. Most of our teachers are full-time employees.

Teachers are responsible for leading each class through the various materials and presentations, and engaging all students in each learning activity. Although we have standardized our teaching tools, teachers must be familiar with our teaching methodologies and the material for each lesson in order to deliver it effectively.

In addition to teaching our students, teachers also focus on serving the needs of the parents of students. Teachers establish multi-channel communications with the parents, including regular offline meetings with parents and weekly follow-up phone calls, as well as online communications and seminars, assisted by other staffs with administrative work, follow up on after-class homework with the parents and students, and recommend various Rise products to the parents. Moreover, we have established our online platform, Rise+, where parents can consult with teachers with various questions instantly and check performance results of their children online.

### ***Teacher training and evaluation***

We offer centralized and continuous training to teachers, which consists of a minimum of seven incremental training steps. These training programs primarily focus on effectively delivering our highly standardized course modules. For instance, we provide two weeks of intense training to each teacher right after recruitment, and we continue to provide them with training at our learning centers throughout the duration of the time with us. After training, teachers are required to pass a variety of exams before teaching our classes. We also have an in-house nine-star rating system to track the performance of teachers, which accounts for important factors including teaching quality, student retention rate, satisfaction level of parents, performance review by principals and other factors such as safety and academic contribution. The salary of each teacher is linked to their individual performance, as measured by our rating system.

We also cooperate with overseas educational institutes for teacher training and international accreditations, and many of teachers hold qualification certificates accredited by reputable overseas institutes.

### ***Teacher recruitment***

We hire teachers based on their education background, English proficiency level, personalities and passion for teaching. For students attending our more advanced courses such as Rise On, we primarily look for candidates with outstanding academic background and adequate teaching experience. For applicants to teach our younger students in Rise Start, we favor candidates who are caring and patient. Our major teaching recruitment channels include campus recruitment, public recruitment through agencies or headhunters and cooperative programs with normal universities.

### **Tuition and Fees**

We offer our products at different prices in different cities, which we adjust on an annual basis based on a variety of factors, including local income standards and demand for our services. Our annual tuitions and fees are generally higher than our competitors because we believe we offer premium products that parents are willing to invest in. Tuitions and fees in franchised learning centers located in non-tier-one cities are generally lower than self-owned learning centers that are usually located in tier-one cities. We generally increase our standard tuition and fees on an annual basis. In 2018 and 2019, the average tuition fees for our courses ranged from approximately RMB16,000 to RMB31,000 per year.

## [Table of Contents](#)

Parents are required to prepay tuition and fees before students can begin classes. If a student withdraws during the year, we offer tutoring course fee refunds in accordance with local education bureau's regulations. We also charge different prices for each of our complementary products, either by an annual subscription fee or by referring to the prevailing market rates.

### **Public Cooperation**

#### ***Drafting and Reviewing National Standards***

Our teaching approach and methodologies have been recognized by multiple national authorities and organizations in China, and we have been invited to participate in the drafting and reviewing certain national education standards. For instance, we assisted in drafting the basic requirements of language training services for children and early youth in October 2016, which was initiated by the Chinese National Institute of Standardization, a national authority responsible for establishing education standards, and the China Quality Certification Center.

#### ***National Subject Research***

Since 2012, we have actively participated in China's 12th five-year national subject research initiated by National Association of Foreign Language Education, the Chinese Society of Education. As a result, we compiled and published Rational and Classroom Implementations of Subject English Education as a textbook for the promotion of subject-based English in China.

#### ***Public School Faculty Training***

We cooperate with universities and public schools in providing various trainings for English teachers. We have provided training to more than 300 public school teachers in Beijing and Ji'nan from 2015 to 2019.

#### ***Subject English Education Research Academy***

In 2013, we initiated Subject English Education Research Academy under The Beijing Academic Society for Education, which established the Beijing subject English Teacher Standards in 2013, and our management members play important roles in this academy, which functions as a self-governing organization in China's regional education industry and sets up several industrial standards. As of December 31, 2019, 13 public and private schools and other educational organizations had become members of this academy.

### **Branding, Sales & Marketing**

#### ***Branding***

We position ourselves as the leader in the junior ELT market in China. Our brand is recognized by multiple educational authorities and organizations in China. For instance, we were accredited as the "Most Reputable Junior English Education Organization" by edu.qq.com in 2015, "Most Creative Brand of the Year" by Beijing News in 2016, one of the 13 "Reputable Education Organization" by Xinhua.com in 2016. In 2017, we have received "Powerful Education Brand of the Year" by Tencent, "Powerful Foreign Language Education Brand of the Year" by Baidu Education, and "Powerful Brand for Foreign Language Training Institution of the Year" by China.org.cn. Moreover, we were awarded as "Influential Elite in Education of the Year" and "Powerful Education Brand of the Year" by Xinhua.com, "No Boundaries for Education" and "Leader of Education Sector" by NetEase, "Trust Brand of Training Institution" by Beijing Evening Post both in 2017 and 2018. In 2018, we received "The most influential educational institutions of the Year" by I-EDU, "Excellent quality education brand of the Year" by Juesheng.com and "The Chinese influential educational training brand of the Year" by Ifeng.com. In 2019, we were awarded "Influential Brand for Education Group of the Year" and "Five Star Gold Medal Education Institution of the Year" by Sina.com and "Top Ten Influential Education Brand of the Year" by Beijing Business Today.

## [Table of Contents](#)

We promote our brand through a series of marketing and public relationship activities, including traditional marketing means such as television ads, internet ads, outdoor display ads, new media as well as large events such as Rise Cup and Rise Star.

### *Rise Cup*

Rise Cup is an annual nationwide English language project competition we host for all of students, regardless of their location, English level, or age. Participants are encouraged to complete certain tasks through teamwork in a fun manner. The four rounds of Rise Cup challenge students to improve their skills in language, project management, leadership and cooperation. It aims to make students think creatively, critically and independently. Rise Cup provides a platform for students to express their ideas and to prove that they can overcome challenges. Rise Cup concludes with an onstage performance by students, in which they present their projects, using their fine-tuned English skills, in front of an audience of thousands of their fellow students, their parents and judges. In 2019, a total of approximately 61,806 students participated in Rise Cup.

### *Rise Star*

Rise Star is an annual online marketing campaign that we host to promote our brand. Rise Star is a competition for students mainly between the ages of three and eight. Based on a unique theme every year, students participate in the competition by making their own videos expressing their views. For instance, the theme of Rise Star in 2017 was “Wild Animal Rescue,” which gave students the opportunity to submit online presentations on the importance of protecting wild animals. It not only encourages students to pursue their interests after class, conduct research independently and present their ideas in a creative way, but also promotes our image by broadcasting the image and products of students in public. We post clips of Rise Star videos on social media and online websites with heavy traffic, which effectively attracts existing and potential customers as well as public interest. In 2019, a total of approximately 54,951 students participated in Rise Star which had attracted more than 64.0 million page views on our website.

## **Marketing**

Our marketing approaches integrate our centralized marketing channels through headquarters with localized marketing efforts by each learning center. We conduct marketing activities through both online and offline channels.

### *Online channel*

We place online and mobile advertisements mainly on online social platforms and search engines, and conduct marketing on leading web portals and social media platforms in China. When selecting marketing agents, we concentrate on their demonstrative ability to generate traffic, and we have accumulated good credit with reputable social media platforms in China who help us to attract potential customers. Furthermore, we cooperate with innovative media platforms and place banner advertisements or advertorials on education-focused platforms and mobile news apps.

### *Offline channel*

We place outdoor display advertisements in public transportation terminals and residential complexes in selected cities. For instance, we regularly set up booths in shopping malls or supermarkets near our learning centers to distribute leaflets and register new students. We sometimes offer demonstrations in the communities around those centers, or participate in large-scale exhibitions and mega events such as carnivals for children to promote our brand and attract potential customers. We also launch marketing campaigns with partners from vertical industries to achieve synergy from time to time. In addition to the centralized marketing team working at our headquarters, we also have a sales force in each of our learning centers.

By integrating these resources, we have established a stable marketing pool with a multifaceted approach. Moreover, our word-of-mouth referrals counted for over 30% in new students enrolled in 2018 and 2019.

## Sales

We have a strong sales team consisting of approximately 723 sales personnel as of December 31, 2019. Our sales approaches are flexible and aim to effectively utilize our online and offline marketing strategies to attract new students. We provide extensive and periodical sales trainings to each of our sales personnel to enhance their sales skills and performance.

## Competition

The junior ELT market in China is rapidly evolving, highly fragmented and competitive. We are currently a leader in China's junior ELT market and in our core market, our major competitors include EF Kids and Disney English.

We believe the principal competitive factors in our industry include the following:

- brand recognition;
- scope and quality of course offerings;
- capability of product development and teacher training;
- standardized management and scalable business model;
- customer satisfaction; and
- ability to effectively market course offerings to a broad base of prospective customers.

Given these factors, we believe we are in a favorable position as a provider of junior ELT in China.

## Intellectual Property

Pursuant to license arrangements with HMMH, we have been granted an exclusive, subject to certain pre-existing third party rights, and royalty-free right to use certain courseware developed by HMMH before October 2011 in China permanently for after-school tutoring services for the primary purpose of teaching the English language to non-native English speaking students. The curricula of Rise Start and Rise On use this HMMH courseware, along with other self-developed content. These arrangements also entitle us to develop derivative products based on this HMMH courseware, including tailored lesson plans for teachers, practice and activity books for students and after-class materials for parents and students to enhance interaction and study at home. We own the intellectual property rights for all of these derivative products, subject to HMMH's ownership of the intellectual property rights in its underlying courseware. We have complied with the licensing arrangements with HMMH during our operations.

We also have self-developed courseware, course materials and complementary products. Moreover, the majority of trademarks that we have registered are related to our self-developed course materials or products.

Our trademarks, copyrights, domain names, trade secrets and other intellectual property rights distinguish our products from those of our competitors and contribute to our competitive advantage in our target markets. To protect our intellectual property, we rely on a combination of trademark, copyright and trade secret laws, and confidentiality agreements with our employees and contractors. We also regularly monitor any infringement or misappropriation of our intellectual property rights.

As of December 31, 2019, our intellectual property rights include the following:

- registration of 20 domain names, including our *risecenter*, *rdchina*, *risechina*, *riseedu*, *risehongkong*, *seerabj*, *riselinkedu* and *e-learningkid* websites;
- 222 registered trademarks, including *Rise*, *Rise Immersion Subject English*, *Rismart*, *Pre-Rise*, *Mini Rise*, *Rise Pro*, *Rise Sat*, *Rise AP*, *Rise Act*, *Rise On*, *Rise Up*, *Rise Start* and *Rise Link*, each of which bolsters our strong brand recognition in China and Hong Kong;
- 85 copyright registration in China; and
- one patent in China.

## **Insurance**

We maintain various insurance policies to safeguard against risks and unexpected events. We maintain insurance to cover students and teachers' actual expenses for injuries they might sustain at our learning centers. We also maintain insurance to cover our liability should any injuries occur at our learning centers. We do not maintain business interruption insurance, product liability insurance or key-man life insurance. See "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—We have limited insurance coverage with respect to our business and operations." We consider our insurance coverage to be in line with that of other ELT education providers of a similar scale in China.

## **Regulation**

We operate our business in China under a legal regime consisting of the National People's Congress, or NPC, which is China's highest legislative body, the State Council, which is the highest authority of the executive branch of the PRC central government, and several ministries and agencies under its authority, including the Ministry of Education, or MOE, the State Administration of Press and Publication, the State Administration of Radio and Television, or SART, the Ministry of Industry and Information Technology, or MIIT, the Ministry of Civil Affairs, the State Administration for Market Regulation, or SAMR, and their respective local offices. This section summarizes the principal PRC regulations related to our business.

### ***Regulations Related to Private Education in the PRC***

#### *Education Law of the PRC*

On March 18, 1995, the NPC enacted the Education Law of the PRC, or Education Law, which was amended on August 27, 2009 and further amended on December 27, 2015. The Education Law sets forth provisions relating to the fundamental education systems of the PRC, including a school education system comprising preschool education, elementary and middle school education and higher education, a system of nine-year compulsory education, a national education examination system, and a system of education certificates. The Education Law stipulates that the government formulates plans for the development of education, establishes and operates schools and other education institution. Furthermore, it provides that, in principle, enterprises, social organizations and individuals are encouraged to establish and operate schools and other types of education institutions in accordance with PRC laws and regulations.

#### *The Law for Promoting Private Education and Its Implementation Rules*

In 2002, the NPC Standing Committee promulgated the Law for Promoting Private Education of the PRC, which became effective on September 1, 2003. The Law for Promoting Private Education of the PRC was subsequently amended in 2013, 2016 and 2018, and the last amendment became effective on December 29, 2019. In accordance with the then-effective Law for Promoting Private Education, the State Council promulgated the Implementation Rules for the Law for Promoting Private Education, or the Private Education Rules, in 2004, which became effective on April 1, 2004.

Under the current Law for Promoting Private Education of the PRC and the Private Education Rules, "private schools" are defined as schools established by social organizations or individuals using non-government funds. Private schools that provide academic education, preschool education, education for self-study examination and other education are subject to approval by the education authorities at or above the county level, while private schools that engage in occupational qualification training and occupational skill training are subject to approvals from the authorities in charge of labor and social welfare at or above the county level. A duly approved private school will be granted a private school operating permit, and shall be registered with local authorities. The measures governing for-profit training institutions registered with the Industry and Commerce Department shall be separately formulated by the State Council. As of December 31, 2019, we have established 19 schools in Beijing, Shanghai, Guangzhou, Shenzhen and Shijiazhuang, which are required to obtain the private school operating permits and register with relevant local civil affairs authorities, and 12 non-school enterprises in Beijing, Shanghai, Guangzhou, Shijiazhuang and Wuxi registered with the local industry and commerce department, which operate the same business as our private schools do, and are required by the local education authority to obtain the private school operating permit according to the State Council Opinions 80 issued in August 2018. For a detailed description of the risks regarding the failure to obtain relevant permits, see "Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—A number of learning centers operate without the required licenses, permits, filings or registrations."

## [Table of Contents](#)

Under the above regulations, entities and individuals who establish private schools are commonly referred to as “sponsors” rather than “owners” or “shareholders.” The economic substance of “sponsorship” with respect to private schools is similar, in certain aspects, to that of shareholder’s ownership with respect to companies in terms of legal, regulatory and tax matters. For example, the name of the sponsor shall be entered into the private schools’ articles of association and private school operating permit, similar to that of shareholders where their names shall be entered into the company’s articles of associations and corporate records filed with the relevant authority. From the perspective of control, the sponsor of a private school also has the right to exercise ultimate control over the school by means such as adopting the private school’s constitutional documents, electing the school’s decision-making bodies, including the school’s board of directors and principals. The sponsor can elect whether the private schools are for-profit or non-profit, and can receive returns from for-profit private schools. The Sponsor may also dispose of its sponsorship interests in the schools for economic gains. However, the rights of sponsors vis-à-vis private schools also differ from the rights of shareholders vis-à-vis companies. For example, under PRC laws, a company’s ultimate decision-making body is its shareholders meeting, while for private schools, it is the board of directors, or board of members, the members of which, though, are substantially appointed by the sponsor. The sponsorship interest also differs from the ownership interests with regard to the right to the distribution of residual assets upon the liquidation of a private school. Upon the termination and liquidation of a private school, the sponsor of a for-profit private school may receive the residual assets of the private school in the same manner as the liquidation of a corporation, while the residual assets of a non-profit school shall be used for the development of other non-profit private schools and may not be distributed to the sponsors.

Under the 2013 Law for Promoting Private Education of the PRC, sponsors of private schools may choose to require “reasonable returns” from the annual net balance of the school after deduction of costs for school operations, donations received, government subsidies (if any), the reserved development fund and other expenses as required by the regulations. Private schools whose sponsor does not require reasonable returns shall be entitled to the same preferential tax treatment as public schools, while the preferential tax treatment policies applicable to private schools whose sponsor requires reasonable returns shall be formulated by the finance authority, taxation authority and other authorities under the State Council. As of December 31, 2019, among our 34 private schools, 32 were registered as schools requiring reasonable returns, and two was registered as schools not requiring reasonable returns.

Under the current Law for Promoting Private Education of the PRC, the term “reasonable return” is no longer used and private schools are classified as either “for-profit” or “non-profit.” Nonetheless, school sponsors are not allowed to establish for-profit schools that are engaged in compulsory education. The key differences between for-profit and non-profit private schools include the following:

- *Profit distribution.* Sponsors of for-profit schools may adopt the form of a corporation under the PRC Company Law, which are entitled to retain the profits and proceeds from the schools and the operation surplus may be allocated to the sponsors, i.e. the shareholders, pursuant to the PRC Company Law and other relevant laws and regulations. Sponsors of non-profit schools are not entitled to the distribution of profits or proceed from the non-profit schools and all operation surplus of non-profit schools shall be used for the operation of the non-profit schools;
- *Tuition.* For-profit private schools are entitled to set their own tuition and other miscellaneous fees without the need to seek prior approvals from the relevant government authorities. The collection of fees by non-profit schools, on the other hand, shall be regulated by the provincial, autonomous regional or municipal governments;
- *Government Support.* Taxation policies for for-profit private schools are still unclear as more specific provisions are yet to be introduced. On the other hand, non-profit schools enjoy more supportive measures than for-profit schools, such as government subsidies, fund awards and incentive donations. For example, non-profit schools will enjoy the same preferential tax treatments as public schools. Furthermore, non-profit schools enjoy the same treatment as public schools with respect to the supply of land, which will be supplied by the government through allocation or other means, while land will be supplied to for-profit schools in accordance with applicable laws; and
- *Liquidation.* The remaining assets of for-profit schools shall be distributed to the sponsors in accordance with the PRC Company Law, while the remaining assets of non-profit private schools after liquidation shall continue to be used for the operation of non-profit schools.

## [Table of Contents](#)

On December 29, 2016, the State Council issued the Several Rules of the State Council on Encouraging the Operation of Education by Social Forces and Promoting the Healthy Development of Private Education, or State Council Rules, which requests to ease the access to the operation of private schools and encourages social forces to enter the education industry. The State Council Rules also provides that each level of the people's governments shall increase their support to private schools in terms of financial investment, financial support, autonomy policies, preferential tax treatments, land policies, fee policies and autonomy operation, and protect the rights of teachers and students etc.

On December 30, 2016, MOE, the Ministry of Civil Affairs, the former State Administration for Industry & Commerce, or the SAIC, the Ministry of Human Resources and Social Security, or MOHRSS, and the State Commission Office of Public Sectors Reform, or SCOPSR, jointly issued the Implementation Rules on the Classification Registration of Private Schools to reflect the new classification system for private schools as set out in the current Law for Promoting Private Education of the PRC. Generally, if a private school established before the promulgation of the 2016 amendment of the Law for Promoting Private Education of the PRC chooses to register as a non-profit school, it shall amend its articles of association, continue its operation and complete the new registration process. If such private school chooses to register as a for-profit school, it shall conduct financial liquidation process, have the property rights of its assets such as lands, school buildings and net balance being examined by relevant government authorities, pay up relevant taxes, apply for a new private school operating permit, re-register the for-profit school as a corporation and continue its operation. Specific provisions regarding the above registration are yet to be introduced by people's governments at the provincial level. After specific rules to implement the Amended Law on the Promotion of Private Education are issued by provincial governments, we will be required to re-register our schools either as non-profit schools or for-profit schools according to PRC Company Law. In light of the practical time required to complete such process, we expect there might be a transition period for private schools to complete the required re-registration process. Nevertheless, we do not believe that such re-registration process would materially or adversely affect our business and results of operations.

On December 30, 2016, the MOE, SAIC and MOHRSS jointly issued the Implementation Rules on the Supervision and Administration of For-profit Private Schools, pursuant to which the establishment, division, merger and other material changes of a for-profit private school shall first be approved by the education authorities or the authorities in charge of labor and social welfare, as the case may be, and then be registered with the competent branch of SAIC.

On September 1, 2017, SAIC and MOE jointly issued the Notice of Relevant Work on the Registration and Management of the Name of For-Profit Private Schools, which specifies the requirements on the names of for-profit private schools.

As of the date of this annual report, certain local governments, including Beijing, Shanghai, Guangdong province and Jiangsu province have promulgated their local regulations relating to legal person registration and administration for private schools. Some local governments such as Beijing and Shanghai require the existing private schools to make a decision for their choice in registering as for-profit or non-for-profit schools within a specific time period. However, the national implementation regulations have yet to be introduced.

On April 20, 2018, MOE published a consultation draft of the Amendment to the Private Education Rules, soliciting public comments. On August 10, 2018, the Ministry of Justice of the PRC issued the revised draft of the Amendment to the Implementation Rules for the Law for Promoting Private Education of the PRC (for Review and Approval), or the MOJ Draft, and an explanatory note soliciting public comments on the MOJ Draft which are due on September 10, 2018. As of the date of this annual report, the MOJ Draft has not yet been promulgated into law and when the MOJ Draft can be finalized and approved remains uncertain. The main changes compared to the current Implementation Rules for the Law for Promoting Private Education of the PRC in effect are as follows:

- Article 5 of the MOJ Draft provides that FIEs incorporated and social organizations established in the PRC whose ultimate controlling owners are foreign nationals shall not invest or participate in investing, or have ultimate and actual control over, any private school engaged in compulsory education;

## Table of Contents

- Article 12 of the MOJ Draft provides that the social organization that manages private schools within a group is prohibited from controlling any non-profit private schools through mergers and acquisitions, or franchising or controlling contracts. Clause 1(6) of the explanatory note to the MOJ Draft clarifies that, in view of the fact that some private schools are concurrently sponsored by, or operated by, the same sponsor, Article 12 of the MOJ Draft recognizes such operations of the existing group schools;
- Article 16 provides that any institution that uses internet technology to engage in online education activities shall obtain the ICP license and make a filing with the education department of the relevant provincial government for records. Those institutions that provide academic education services through internet technology would need to obtain the private school operating permits; and
- Article 45 provides that related party transactions by private education institutions shall be transparent, just and fair, and shall not jeopardize the interests of the state, the private education institutions, and the teachers and students. The private education institutions shall establish information disclosure mechanism for such transactions. Article 45 further provides that for agreements between non-profit private education institutions and their related parties, which involve material interests or are long-term and recurring, the relevant government authorities shall review and audit such agreements regarding their necessity, legitimacy and compliance.

Before the General Office of the State Council issued the Opinions on Regulating Development of After-school Education Institutions, or the State Council Opinions 80, on August, 22 2018, no nationwide regulation has been promulgated to regulate the establishment of additional learning centers outside the registered address of a school, and different provinces or cities have adopted different procedures. For example, in Beijing, Shenzhen and Guangzhou, an additional learning center shall be located in the same district where the private school is registered and the establishment of an additional learning center is subject to a prior approval or filing procedure with relevant education authority. In Shanghai, an additional learning center is allowed to be established across different district from where the school is registered, provided that it is approved by relevant education authority. According to the State Council Opinions 80, schools are allowed to establish additional learning centers both within the same district where the private school is registered and in different districts, subject to a prior approval from competent education authority where the learning center is located. Among the 63 self-owned learning centers operated by our 19 schools as of December 31, 2019 (other than the 17 self-owned learning centers operated by our non-school enterprise in Shanghai, four in Shijiazhuang, two in Wuxi, one in Beijing and two in Hong Kong), 19 are located in the same address where the schools are registered, one is located in the same address where the school is applying for registration, and 43 are located outside the registered addresses of those schools and thus are subject to approvals by or filings with local education authorities.

### *Recent Regulations on After-school Education Institutions*

On August 22, 2018, the General Office of the State Council issued the State Council Opinions 80 which provided various guidance on regulating after-school training market for primary and secondary school students, including, among others, the operation standards that after-school education institutions should follow, the requirements and approvals necessary for opening new after-school education institutions, the guidance for daily operation of after-school education institutions, and the regulatory supervision scheme for after-school education institutions.

The operation standards set out in the State Council Opinions 80 include, among others: (1) the average area per student used within any specific training period shall be no less than three square meters; (2) after-school education institutions shall meet the fire safety, environmental protection, and health and food safety requirements; (3) personal safety insurance shall be purchased for students to mitigate risks; and (4) no primary or secondary school teachers shall be employed by after-school education institutions and all the teachers teaching courses in relation to primary and secondary school curriculum shall obtain relevant teaching qualifications. The State Council Opinions 80 requires that after-school education institutions obtain school operating permits. The State Council Opinions 80 further provides that after-school education institutions shall obtain approvals from local education administration authorities to open new branches or learning centers.

The State Council Opinions 80 provide guidance on the daily operation of after-school education institutions, including, among others: (1) for courses on primary and secondary school curriculum, key course information, including subjects, course schedules, and course syllabi, shall be filed with the local education administration authorities and made public, and the course progress shall not surpass the same-period progress of local primary schools and secondary schools; (2) no classes shall be arranged in conflict with the regular school time in local primary schools and secondary schools; (3) tutoring activities shall end no later than 8:30 p.m.; (4) no homework shall be assigned; (5) no scored examination, competition or ranking in connection with the courses of primary schools or secondary schools shall be arranged; (6) no more than three months of tuition fee can be collected in one time; and (7) no fees other than those that have been made public and no compulsory fund-raising for any purposes may be collected from the students.

## [Table of Contents](#)

On August 31, 2018, the General Office of the MOE promulgated the Circular regarding the Implementation of Special Measures and Rectification Work on the Private Education Institutions, which provides detailed requirements for the provincial education departments to enforce the State Council Opinions 80.

On November 20, 2018, the General Office of the MOE, the General Office of the SAMR and the General Office of the Ministry of Emergency Management jointly issued the Notice on Improving the Specific Governance and Rectification Mechanisms of After-school Education Institutions, which provides specific requirements for the local people's governments at all levels in the implementation of the State Council Opinions 80.

### *Foreign Investment in Private Education*

In 1995, the National Development and Reform Commission, or NDRC, and MOFCOM promulgated the Foreign Investment Industries Guidance Catalog, or Foreign Investment Catalog, as amended from time to time. The Foreign Investment Catalog was replaced by the Special Administrative Measures (Negative List) for Foreign Investment Access, or the Negative List, jointly published by the NDRC and MOFCOM in 2018 and the Catalogue of Industries Encouraged for Foreign Investment, or the Encouraged Catalogue jointly published by the NDRC and MOFCOM in 2019. The Negative List was subsequently amended in 2019. In accordance with the current Foreign Investment Law that became effective on January 1, 2020, industries listed on neither the Negative List nor the Encouraged Catalogue are generally deemed "permitted" for foreign investment. Pursuant to the Encouraged Catalogue, non-academic occupational skill training education is categorized as an encouraged industry for foreign investors. Pursuant to the Negative List: (i) preschool education, high school education and higher education are restricted industries for foreign investors, and foreign investors are only allowed to invest in preschool education, high school education and higher education in cooperative ways and the domestic party shall hold a dominant position in the cooperation, and (ii) compulsory education, i.e., elementary school and middle school education, and religion-related education are prohibited industries for foreign investors. Other education related businesses that are not encouraged, restricted or prohibited fall into the permitted category. As such, our business falls into the category of permitted industry for foreign investment.

Sino-foreign cooperation in school operation is specifically governed by the amended Regulation on Operating Sino-foreign Schools of the PRC, which was promulgated by the State Council on March 1, 2003, as amended on July 18, 2013. In addition, The Implementing Rules for the Regulations on Operating Sino-foreign Schools became effective on July 1, 2004. Pursuant to these regulations, any foreign entity that invests in the education business in China through sino-foreign cooperation must be an educational institution with relevant experience in providing educational services outside China. Our offshore holding companies are not educational institutions and, to comply with PRC laws and regulations, have entered into a series of contractual arrangements with our VIE and its schools and shareholders.

On June 18, 2012, MOE issued the Implementation Opinions of MOE on Encouraging and Guiding the Entry of Private Capital in the Field of Education and Promoting the Healthy Development of Private Education to encourage private investment and foreign investment in the field of education. According to these laws, regulations and opinions, the proportion of foreign capital in a PRC-foreign cooperative education institute shall be less than 50%.

### *Collection of Private Education Fees*

Pursuant to the Interim Measures for the Management of the Collection of Private Education Fees, which was promulgated by NDRC, MOE and MOHRSS on March 2, 2005, the types and amounts of fees charged by a private school providing academic education shall be examined and verified by education authorities or the labor and social welfare authorities and approved by the governmental authorities regulating pricing. A private school that provides non-academic education shall file its pricing information with such governmental authorities and publicly discloses such information. If a school raises its tuition fee standards without obtaining the proper approval or making the relevant filing with the relevant government authorities, the school would be required to refund the additional tuition fees obtained through the fee rise and become liable for compensation of any losses incurred by its students in accordance with relevant PRC laws.

## [Table of Contents](#)

According to the amended Law on the Promotion of Private Education, the fees charged by for-profit schools are determined by the schools at their discretion, while the fees charged by non-profit schools shall be regulated by the relevant local government authorities.

### *Measure for Punishment for Violation of Professional Ethics of Primary and Secondary School Teachers*

On January 11, 2014, MOE promulgated the Measures for Punishment for Violation of Professional Ethics of Primary and Secondary School Teachers, as amended on October 8, 2018, which prohibits teachers of primary and secondary schools from providing paid tutoring in schools or in out-of-school learning centers. For a detailed description of the risk associated with these matters, see “Item 3. Key Information—D. Risk Factors—Risk Related to Our Business and Industry—We may not be able to continue to recruit, train and retain a sufficient number of qualified teachers.”

### ***Regulations Related to Publishing and Distribution of Publications***

The State Council promulgated the Administrative Regulations on Publication, or the Publication Regulations, on December 25, 2001, as amended on February 2, 2016. The Publication Regulations applies to publication activities, i.e., the publishing, printing, copying, importation or distribution of publications, including books, newspapers, periodicals, audio and video products and electronic publications, each of which requires approval from the relevant publication administrative authorities.

In addition, the former General Administration of Press and Publication and MOFCOM issued the Administrative Regulations on Publications Market on July, 24, 2003, as amended on May 31, 2016. According to this regulation, any organization or individual engaged in general wholesale or retail distribution of publications shall obtain a Permit for Operating Publications Business.

Rise Tianjin, our PRC subsidiary, obtained the Permit for Operation Publications Business on August 17, 2015.

### ***Regulations Related to Online Business***

#### *Internet Information Services*

The State Council promulgated the Internet Information Services Administrative Measures, or Internet Information Measures, on September 25, 2000, as amended on January 8, 2011. According to the Internet Information Measures, Internet information services refer to service activities which provide information to online users through the Internet, which are divided into services of a commercial nature and services of a non-commercial nature. Commercial Internet information services refer to compensatory services which establish websites providing information to online users through the Internet, while non-commercial Internet information services refer to non-compensatory services which provide public information to online users through the Internet. Entities engaging in commercial Internet information services shall obtain a license for Internet information services, or ICP license, from the appropriate telecommunications authorities. Entities engaging in non-commercial Internet information services shall file for record with the telecommunications authorities.

#### *Broadcasting Audio-Video Programs through the Internet or Other Information Network*

On July 6, 2004, the former State Administration of Radio, Film and Television, or SARFT, promulgated the Rules for the Administration of Broadcasting of Audio/Video Programs through the Internet and Other Information Networks, or the A/V Broadcasting Rules. This regulation applies to the launch, broadcasting, aggregation, transmission or download of audio/video programs via televisions, mobile phones and the Internet and other information networks. Anyone who wishes to engage in Internet broadcasting activities must first obtain an audio/video program transmission license, with a term of two years, issued by SARFT, and operate within the scope set forth in such license. Foreign invested enterprises are not allowed to engage in the above business.

On April 13, 2005, the State Council announced the Several Decisions on Investment by Non-state-owned Companies in Culture-related Business in China. These decisions encourage and support non-state-owned companies to enter certain culture-related business in China, subject to restrictions and prohibitions on investment in audio/video broadcasting, web news and certain other businesses by non-state-owned companies. These decisions authorize SARFT, the Ministry of Culture, or MOC, and the former General Administration of Press and Publication, or GAPP, to adopt detailed implementation rules according to these decisions.

On December 20, 2007, SARFT and the former Ministry of Information Industry, or MII, jointly issued the Rules for the Administration of Internet Audio and Video Program Services, commonly known as Circular 56, which came into effect as of January 31, 2008 and was further amended on August 8, 2015. Circular 56 reiterates the requirement set forth in the A/V Broadcasting Rules that online audio/video service providers must obtain an “Internet audio/video program transmission license” from SARFT. Furthermore, Circular 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled companies. On March 17, 2010, SARFT promulgated the Tentative Categories of Internet Audio-Visual Program Service, or the Categories, as amended on March 10, 2017, which clarified the scope of Internet Audio-Visual Programs. According to the Categories, there are four categories of Internet audio-visual program service which in turn are divided into seventeen sub-categories. The third sub-category of the second category covers the making and broadcasting of certain specialized audio-visual programs concerning art, culture, technology, entertainment, finance, sports, and education.

On June 1, 2016, the former State Administration of Press, Publication, Radio, Film and Television, or the SAPPRFT, promulgated the Provisions on the Administration of Private Network and Targeted Communication Audiovisual Program Services. This regulation applies to “private network and targeted communication audiovisual program services,” i.e., the provision of radio and TV program and other audiovisual program services to the targeted audience with TV, and all types of handheld electronic equipment, etc., as terminal recipients, and through setting up virtual private network through local area networks and Internet or with Internet and other information networks as targeted transmission channels, including the provision of contents, integrated broadcast control, transmission and distribution, and other activities conducted by such forms as Internet protocol television (IPTV), private network mobile TV, and Internet TV. Whoever provides private network and targeted communication audiovisual program services, such as content provision, integrated broadcast control, and transmission and distribution, shall obtain a License for the Dissemination of Audiovisual Programs through Information Network in accordance with the Provisions on the Administration of Private Network and Targeted Communication Audiovisual Program Services.

### ***Internet Culture Activities***

On February 17, 2011, MOC promulgated the Interim Administrative Provisions on Internet Culture, or the Internet Culture Provisions, which became effective on April 1, 2011 and was further amended on December 15, 2017. The Internet Culture Provisions requires ICP service providers engaging in commercial Internet culture activities to obtain a permit from the competent culture authority. Internet cultural activities includes (i) the production, duplication, importation, and broadcasting of the Internet cultural products; (ii) the online dissemination whereby cultural products are posted on the Internet or transmitted via the Internet to end-users, such as computers, fixed-line telephones, mobile phones, television sets and games machines, for online users’ browsing, use or downloading; and (iii) the exhibition and comparison of the Internet cultural products. “Internet cultural products” is defined in the Internet Culture Provisions as cultural products produced, broadcast and disseminated via the Internet, which mainly include Internet cultural products specially produced for the Internet, such as online music entertainment, online games, online shows and plays, online performances, online works of art and online cartoons, and Internet cultural products produced from cultural products such as music entertainment, games, shows and plays, performances, works of art, and cartoons through certain techniques and duplicate those to Internet for dissemination.

### ***Internet Publishing***

On February 4, 2016, SAPPRFT and MIIT jointly issued the Administrative Measures of Internet Publishing Services, or the Internet Publishing Measures. According to the Internet Publishing Measures, an online publishing services permit shall be obtained to provide online publishing services. Online publishing services refer to providing online publications to the public through information networks. Online publications refer to digital works with publishing features such as those having been edited, produced or processed and are made available to the public through information networks, including: (i) written works, pictures, maps, games, cartoons, audio/video reading materials and other original digital works containing useful knowledge or ideas in the field of literature, art, science or other fields; (ii) digital works of which the content is identical to that of any published book, newspaper, periodical, audio/video product, electronic publication or the like; (iii) network literature databases or other digital works, derived from any of the aforesaid works by selection, arrangement, collection or other means; and (iv) other types of digital works as may be determined by SAPPRFT.

## [Table of Contents](#)

Under PRC laws and regulations, we may be required to obtain an ICP license, an Internet audio or video program transmission license, an Internet culture permit and an online publishing services permit for the operation of our online educational products, such as Rise Up and Can-Talk. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Business and Industry—A number of learning centers operate without the required licenses, permits, filings or registrations.”

### *Online and Distance Education*

Pursuant to the Provisional Administrative Regulations on Educational Websites and Online and Distance Education Schools, or the 2000 Online Education Rules, issued by the MOE on July 5, 2000, educational websites and online education schools may provide educational services in relation to higher education, elementary education, pre-school education, teaching education, occupational education, adult education, other education and public educational information services. “Educational websites” refer to organizations providing education or education-related information services to website visitors by means of a database or online education platform connected via the Internet or an educational television station through an Internet Service Provider, or ISP. “Online education schools” refers to education websites that hold the relevant qualifications and provide academic education services or training services.

Under the 2000 Online Education Rules, setting up education websites and online education schools was subject to approval from relevant education authorities, depending on the specific categories of education. Such approval requirement was abolished by the State Council on February 3, 2016.

MOE and other five authorities jointly published the Implementation Opinion on Online Tutoring, or the MOE Online Tutoring Opinion, on July 12, 2019, which became effective on the same date. The MOE Online Tutoring Opinion restated certain requirements that apply to all after-school tutoring institutions and further provides that, among others: (i) online after-school tutoring institutions shall publicly disclose their teachers’ names, photographs, teachers’ qualifications and information related to fees, tuitions and refunds at prominent locations on their home page, and shall publicly disclose their foreign teachers’ education background and experience, if applicable; (ii) information including licenses (including ICP), cash management policies and procedures, privacy and information security systems, curriculum and teaching schedules, enrollment arrangements and teachers’ qualifications shall be filed with education administration authorities at the provincial level in accordance with the procedures to be promulgated by such education administration authorities; (iii) tutoring contents and data shall be retained for no less than one year and videos of live-streaming tutoring courses shall be retained for at least six months; (iv) the length and timing of classes shall be in compliance with the relevant requirements; (v) online after-school tutoring institutions shall adopt adequate cyber security and privacy protection policies, procedures and technical measures; (vi) online after-school tutoring institutions may not use prepaid tuitions for investment purposes and the amounts of prepayments shall be commensurate with the school’s tutoring capability; and (vii) prepaid tuitions collected from students each time should not exceed the fees for 60 classes (if students are charged according to the number of classes taken) or for a period of time exceeding three months (if students are charged according to the period of time enrolled).

MOE, together with seven other authorities, published the Opinion on Healthy Development of Online Education Applications on August 10, 2019, restating certain requirements on online education application providers, including: (i) online after-school tutoring institutions shall examine the teaching qualifications, education background and capabilities of their foreign teachers; (ii) online education application providers shall file the required information about themselves as well as their applications with education administration authorities at the provincial level in accordance with the procedures to be promulgated by MOE; (iii) online education application providers whose applications mainly target children shall limit the length of screen time, specify the age group of target users, and strictly review the contents of the applications; (iv) collection of personal information of children shall require a permission from the guardians of the children; (v) online education application providers shall adopt data security policies and procedures covering the collection, storage, transfer, uses and other respects of personal information, and shall set up real-name verification procedures for users; and (vi) education authorities at the provincial level shall set up negative lists with respect to online education applications.

### ***Regulations Related to Franchise***

The State Council promulgated the Administrative Regulations on Commercial Franchising, or Franchise Regulations, on February 6, 2007. MOFCOM promulgated the Administrative Measures on Filing of Commercial Franchise, or the Franchise Filing Measures, on April 30, 2007, as amended on December 12, 2011, as well as the Administrative Measures on Information Disclosure of Commercial Franchise, or Franchise Information Disclosure Measures, on April 30, 2007, as amended on February 23, 2012.

Under the above regulations, franchise operations refer to a license by an enterprise owner of registered trademarks, enterprise logos, patents, or proprietary technologies or other business resources, or franchisor, to another business operator, or franchisee, to use such business resources owned by the franchisor, through a contractual arrangement, where the franchisee operates the business according to a uniform business model stipulated under the contract and pay the franchisor franchising fees.

When engaging in a franchise operation, a franchisor and a franchisee shall enter into a written franchise contract containing several key elements, such as basic information of the franchisor and the franchisee, and the terms and conditions of the franchise operation. A franchisor shall file with MOFCOM or its local office within 15 days from the date of entering into a franchise contract with a franchisee for the first time, and shall report to the filing agency on information on franchise contracts executed, revoked, terminated or renewed in the preceding year before March 31 of each year.

Given that our franchised learning centers are owned and operated by our franchise partners, and we only provide franchise services to our franchise partners rather than operating those franchised learning centers directly, the regulations related to foreign investment in the education industry do not apply to our franchising activities. Beijing Step Ahead, our VIE, is the entity owning business resources, including certain registered trademarks and logos, and entering into franchise agreements with our franchise partners. Beijing Step Ahead has filed with MOFCOM all the franchise agreements that have been executed as of December 31, 2019.

### ***Regulations Related to Intellectual Property Protection***

#### *Copyright*

NPC amended the Copyright Law in 2001 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. The Copyright Law was further amended on February 26, 2010.

To address copyright infringement related to contents posted or transmitted over the Internet, the National Copyright Administration and MII jointly promulgated the Administrative Measures for Copyright Protection Related to the Internet, effective May 30, 2005.

#### *Trademark*

Pursuant to the amended Trademark Law of the PRC, or the Trademark Law, effective May 1, 2014, registered trademarks refer to trademarks that have been approved and registered by the Trademark Office of the State Administration for Industry & Commerce, which include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademarks, which shall be protected by law. On April 23, 2019, the NPC Standing Committee promulgated the latest amendment to the PRC Trademark Law, which came into effect on November 1, 2019. The latest amendment to the Trademark Law additionally provides that, among other things, (i) an application for registration of a malicious trademark not for use shall be rejected, (ii) those who apply for trademark registration maliciously shall be given administrative penalties of warning or fines based on the circumstances; and (iii) those who file malicious trademark lawsuits shall be punished by the people's court according to applicable laws.

*Domain name*

Pursuant to the Administrative Measures for Internet Domain Names promulgated by MIIT, effective November 1, 2017, a domain name refers to the character mark of hierarchical structure, which identifies and locates a computer on the Internet and corresponds to the Internet protocol (IP) address of that computer, and the principle of “first come, first serve” is followed for the domain name registration service. Domain name applicants shall provide true, accurate and complete identification of the domain name holder as requested by the domain name registration service provider. The domain names registered or used by an organization or individual shall not contain any contents prohibited by laws or administrative regulations.

***Regulations Related to Foreign Exchange***

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations, which were most recently amended in August 2008. Payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can usually be made in foreign currencies without prior approval from the State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. By contrast, approval from or registration with appropriate PRC authorities or banks authorized by appropriate PRC authorities is required where RMB funds are to be converted into a foreign currency and remitted out of China to pay capital expenses.

From 2012, SAFE has promulgated several circulars to substantially amend and simplify the foreign exchange procedures. Pursuant to these circulars, the opening of various special purpose foreign exchange accounts, the reinvestment of RMB proceeds by foreign investors in the PRC and remittance of profits and dividends in foreign currencies by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE. In addition, domestic companies are no longer restricted from extending cross-border loans to their offshore subsidiaries and are allowed to provide loans to their offshore parents and affiliates, and multiple capital accounts for the same entity may be opened in different provinces. SAFE also promulgated the Circular on Printing and Distributing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents in May 2013, which specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration and banks shall process foreign exchange transactions relating to direct investments in the PRC based on the registration information provided by SAFE and its branches. In February 2015, SAFE promulgated SAFE Circular 13, which took effect on June 1, 2015. SAFE Circular 13 delegates the power to enforce the foreign exchange registration in connection with inbound and outbound direct investments under relevant SAFE rules from local branches of SAFE to banks, thereby further simplifying the foreign exchange registration procedures for inbound and outbound direct investments. On January 26, 2017, SAFE issued SAFE Circular 3, which stipulates several capital control measures with respect to outbound remittances of profits from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall hold income to account for previous years’ losses before remitting the profits.

***Regulations Related to Employee Share Incentive Awards Granted by Listed Companies***

On February 15, 2012, SAFE promulgated the Notices on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly-Listed Companies, or the Stock Option Rules. Under the Stock Option Rules and other relevant rules and regulations, PRC residents who participate in a stock incentive plan in an overseas publicly listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of a stock incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of such overseas publicly listed company or another qualified institution selected by such PRC subsidiary, to complete the SAFE registration and other procedures with respect to the stock incentive plan on behalf of its participants. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding shares or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the share incentive plans if there are any material changes to the share incentive plans, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees who have been granted incentive shares are subject to these regulations.

## ***Regulations Related to Foreign Direct Investment in the PRC***

### ***The Foreign Investment Law***

On March 15, 2019, the National People's Congress approved the Foreign Investment Law, which became effective on January 1, 2020 and has replaced three existing laws on foreign investments in China, namely, the PRC Equity Joint Venture Law, the PRC Cooperative Joint Venture Law and the Wholly Foreign-owned Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its regulatory regime with respect to foreign investments in line with the prevailing international practices and the legislative efforts to unify the corporate legal requirements for both foreign and domestic invested enterprises in China. The Foreign Investment Law establishes the basic framework for the access to, and the promotion, protection and administration of foreign investments in view of investment protection and fair competition. The implementing rules of the Foreign Investment Law were promulgated by the State Council of the PRC on December 26, 2019, which became effective on January 1, 2020.

Pursuant to the Foreign Investment Law and its implementation rule, "foreign investments" refer to investment activities conducted by foreign investors directly or "indirectly" in the PRC, which include any of the following circumstances: (i) foreign investors setting up foreign-invested enterprises in the PRC solely or jointly with other investors, (ii) foreign investors obtaining shares, equity interests, property portions or other similar rights and interests of enterprises within the PRC, (iii) foreign investors investing in new projects in the PRC solely or jointly with other investors, and (iv) investment in other methods as specified in laws, administrative regulations, or as stipulated by the State Council.

In accordance with the Foreign Investment Law, NDRC and MOFCOM jointly published the Catalogue for Special Administrative Measures (Negative List) for Foreign Investment Access, or the "Negative List" for foreign investments, on June 28, 2018, and the Industry Catalogue for Encouraged Foreign Investments on June 30, 2019. The Foreign Investment Law grants national treatment to foreign invested entities, except for those foreign invested entities that operate in the industries categorized as "restricted" or "prohibited" on the Negative List. The Foreign Investment Law provides that foreign invested entities operating in the industries restricted or prohibited for foreign investments will require market entry clearance and other approvals from relevant PRC governmental authorities.

Furthermore, the Foreign Investment Law provides that foreign invested enterprises established under the existing laws regulating foreign investment may maintain their structure and corporate governance within five years after the Foreign Investment Law became effective.

In addition, the Foreign Investment Law also provides several protective rules and principles for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to foreign investors; foreign-invested enterprises are allowed to issue stocks and corporate bonds; except under special circumstances, in which case statutory procedures shall be followed and fair and reasonable compensation shall be made in a timely manner, expropriation or requisition of the investment of foreign investors is prohibited; mandatory technology transfer is prohibited; and the capital contributions, profits, capital gains, proceeds out of asset disposal, licensing fees of intellectual property rights, indemnity or compensation legally obtained, or proceeds received upon settlement by foreign investors within China, may be freely remitted into and out of China in RMB or a foreign currency. Where a license is required for investing in certain industries, foreign investors must apply for such license, and the government must treat applications by foreign-invested enterprises in the same way as an application by a domestic enterprise, except where laws or regulations provide otherwise. In addition, foreign investors or foreign-invested enterprises are required to file information reports, and foreign investment shall be subject to the national security review. Also, foreign investors or the foreign investment enterprises should be imposed legal liabilities for failing to report investment information in accordance with the requirements.

### ***Regulations Related to Loans to the PRC Entities by Offshore Holding Companies and Cross-border Guarantee***

According to the Implementation Rules for the Provisional Regulations on Statistics and Supervision of Foreign Debt promulgated by SAFE on August 27, 1987, the Implementing Rules on Statistics and Supervision of Foreign Debt by SAFE on September 24, 1997, and the Interim Provisions on the Management of Foreign Debts promulgated by SAFE, NDRC and MOFCOM which became effective on March 1, 2003, loans by foreign companies to their subsidiaries in China, which accordingly are foreign-invested enterprises, are considered foreign debt, and such loans must be registered with the local branches of SAFE. Under these regulations, the total amount of accumulated medium- and long-term foreign debt and the balance of short-term debt borrowed by a foreign-invested enterprise is limited to the difference between the total investment and the registered capital of the foreign-invested enterprise. Total investment of a foreign-invested enterprise is the total amount of capital that can be used for the operation of the foreign-invested enterprise, and registered capital of a foreign-invested enterprise is the total amount of capital contributions to the foreign-invested enterprise by its foreign holding company or owners. On April 28, 2013, SAFE promulgated the Measures for the Administration of Foreign Debt Registration, further formulating the registration requirements of foreign debts.

## [Table of Contents](#)

On January 11, 2017, People's Bank of China promulgated Notice on Matters relating to the Macro-Prudential Management of All Cross-Border Financing, or the Circular 9. Under the Circular 9, a PRC company may borrow cross-border loans up to two times, or the then applicable statutory multiple, the amount of its net asset, calculated in accordance with PRC GAAP. This is referred to as the Net Assets Limit. An FIE may borrow cross-border loans up to (i) the amount of the difference between its registered total investment amount and registered capital, or (ii) the Net Assets Limit, at its election. PRC companies shall report the information on the execution of cross-border financing contracts to the capital account information system of the SAFE for recordation after the execution date but no later than three working days before the drawdown date.

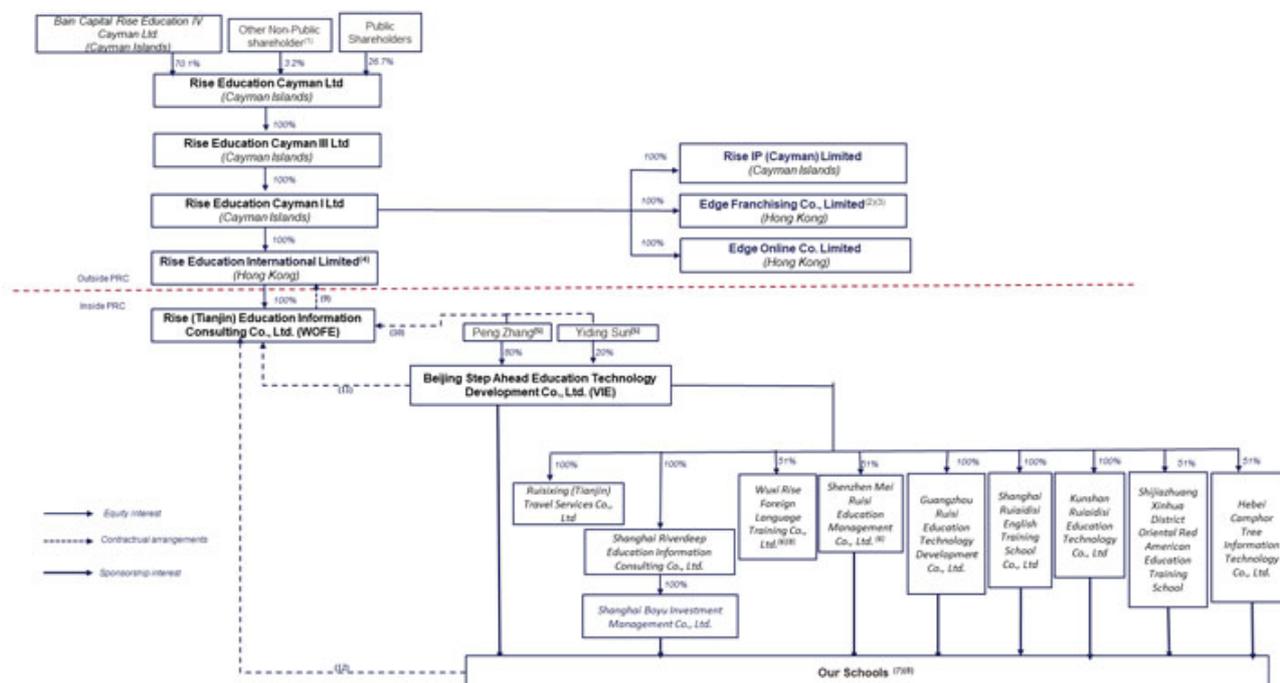
On May 12, 2014, SAFE promulgated the Provisions on Foreign Exchange Administration of Cross-border Guarantee, under which overseas lending secured by domestic guarantee, whereby the place of the registration of the guarantor is within the PRC, while the places of registration of both the debtor and the creditor are outside the PRC, is a kind of cross-border guarantee, and the domestic guarantee shall register the guarantee contract with a local branch of SAIF within 15 working days after the conclusion of the guarantee contract.

### ***M&A Regulations and Overseas Listings***

On August 8, 2006, six PRC governmental and regulatory agencies, including MOFCOM and China Securities Regulation Committee, or the CSRC, promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors, or the M&A Rules, governing the mergers and acquisitions of domestic enterprises by foreign investors that became effective on September 8, 2006 and was revised on June 22, 2009. The M&A Rules, among other things, require that if an overseas company established or controlled by PRC companies or individuals, or PRC Citizens, intends to acquire equity interests or assets of any other PRC domestic company affiliated with the PRC Citizens, such acquisition must be submitted to MOFCOM for approval. The M&A Rules also requires that an offshore SPV that is controlled directly or indirectly by the PRC companies or individuals and that has been formed for overseas listing purposes through acquisitions of PRC domestic interest held by such PRC companies or individuals, shall obtain the approval of CSRC prior to overseas listing and trading of such SPV's securities on an overseas stock exchange.

C. Organizational Structure

We conduct our businesses through our subsidiaries and our VIE and its subsidiaries and schools. The chart below summarizes our corporate structure and identifies the principal subsidiaries and consolidated affiliates described above and the places of incorporation as of the date of this annual report:



- (1) As of March 31, 2020, 1.7% equity interests were held by other non-public shareholders, including certain directors, senior management and key employees in the company. See “Item 6. Directors, Senior Management and Employees – E. Share Ownership.
- (2) We acquired 100% equity interest in Edge Franchising Co. Limited from the Edge Learning Centers Limited in November 2017. See “Item 7. Major Shareholders and Related Party Transactions – B. Related Party Transactions.”
- (3) As of December 31, 2019, we had one franchised learning center in Singapore that was operated by our franchise partner in Singapore through a franchise agreement with Edge Franchising Co. Limited.
- (4) As of December 31, 2019, we had two self-owned learning centers in Hong Kong that were operated through Rise Education International Limited.
- (5) Mr. Peng Zhang, a former employee of an affiliate of our principal shareholder, Bain Capital Rise Education IV Cayman Limited, and Mr. Yiding Sun, our vice chairman and director, holding 80% and 20% of the VIE’s equity interests, respectively.
- (6) The remaining 49% equity interests are owned by an unrelated third party.
- (7) Under PRC law, entities and individuals who establish and maintain ownership interests in private schools are referred to as “sponsors.” The rights of sponsors vis-à-vis private schools are similar to those of shareholders vis-à-vis companies with regard to legal, regulatory and tax matters, but differ with regard to the rights to receive returns on investment and the distribution of residual properties upon termination and liquidation. As of December 31, 2019, we had established 19 private schools in China to operate our network of self-owned learning centers. For more information regarding school sponsorship and the difference between sponsorship and ownership under relevant laws and regulations, see “Item 4. Information of the Company—B. Business Overview—Regulations Related to Private Education in the PRC—The Law for Promoting Private Education and Its Implementation Rules.”
- (8) Learning centers are not legal entities under PRC law. As of December 31, 2019, we had 87 self-owned learning centers across China, 63 of which were operated by the 19 schools for which we are the sponsor and 24 of which were operated by non-school enterprises.
- (9) Consulting Services Agreement.
- (10) Loan Agreements, Proxy Agreement, Call Option Agreement, Equity Pledge Agreement, Business Cooperation Agreement.
- (11) Proxy Agreement, Business Cooperation Agreement, Service Agreement, Call Option Agreement and Equity Pledge Agreement, Service Agreement, Consulting Service Agreement and License Agreement.
- (12) License Agreements, License Agreements with respect to the Management System, Service Agreements, and Framework Agreements on Purchase of Teaching Materials.

## **Contractual Arrangements among Our VIE, Its Schools, Its Shareholders and Us**

Due to the PRC legal restrictions on foreign investment in and ownership of entities engaged in the education industry, we operate our business through our VIE and its subsidiaries and schools. PRC laws and regulations currently require any foreign entity that invests in the education industry in China to be an educational institution with relevant experience in providing educational services outside of China. Our offshore holding companies are not educational institutions and do not provide educational services outside China. Accordingly, our offshore holding companies are not allowed to directly engage in the education industry in China. To comply with PRC laws and regulations, we have entered into a series of contractual arrangements with our VIE and its schools and its shareholders, through which we are able to consolidate the financial results of our VIE and its subsidiaries and schools. These contractual arrangements allow us to:

- exercise effective control over our VIE and its subsidiaries and schools;
- receive substantially all of the economic benefits of our VIE and its subsidiaries and schools; and
- have a call option to purchase all or part of the equity interests in our VIE when and to the extent permitted by PRC law.

As a result of these contractual arrangements, we are the primary beneficiary of our VIE and its subsidiaries and schools and have consolidated their financial results in our consolidated financial statements in accordance with U.S. GAAP. However, these contractual arrangements may not be as effective in providing operational control as direct ownership and the use of the contractual arrangements exposes us to certain risks. For example, Beijing Step Ahead, its schools or its shareholders may breach the contractual arrangements with us. In such cases, we would have to rely on legal remedies under PRC law, which may not always be effective, particularly in light of uncertainties in the PRC legal system. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure.”

If our PRC affiliated entities, Mr. Peng Zhang or Mr. Yiding Sun fail to perform their obligations under the contractual arrangements, we could be limited in our ability to enforce the contractual arrangements that give us effective control over our affiliated entities. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on contractual arrangements with our consolidated affiliates and the shareholders of Beijing Step Ahead for our operations in China, which may not be as effective in providing control as direct ownership.” If we are unable to maintain effective control over our affiliated entities, we will not be able to continue consolidating the financial results of our affiliated entities into our financial results. In 2017, 2018 and 2019, our consolidated affiliated entities contributed 94%, 92% and 94%, respectively, of our total revenues. Further, we rely on dividends and other distributions paid to us by our offshore and PRC subsidiaries, which in turn depends on the service or royalty fees paid from our VIE, its subsidiaries and schools in the PRC. In practice, we evaluate on a case-by-case basis the performance and future plans of our VIE and schools before determining the amount of fees we will collect from them. We do not have unfettered access to the revenues from our PRC subsidiaries or affiliated entities due to the significant legal restrictions on the payment of dividends by PRC companies, foreign exchange control restrictions, and restrictions on foreign investment, among others. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—We rely on dividends, fees and other distributions paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could hinder our ability to conduct our business.”

The following is a summary of the currently effective contractual arrangements by and among us, Beijing Step Ahead, its schools and its shareholders, namely Mr. Peng Zhang and Mr. Yiding Sun.

### ***Agreements that provide us with effective control over the VIE***

#### *Loan agreements*

The current shareholders of the VIE, Mr. Peng Zhang and Mr. Yiding Sun, acquired their respective equity interests in the VIE from its former shareholders in November 2016 and June 2017, respectively. In order to ensure that the VIE’s shareholders are able to provide capital for the share acquisitions, we have entered into loan agreements with each of them. Pursuant to the loan agreements, we have granted a loan to each of them that may only be used for the purpose of acquiring their respective equity interest in the VIE or paying relevant taxes. Unless otherwise agreed by us, the loans may be repaid only by the shareholders transferring all of their respective equity interests in the VIE to us or our designee upon our exercise of the options under the call option agreement. The loan agreements also prohibit the shareholders from assigning or transferring to any third party, or from creating or causing any security interest to be created on, any part of their respective equity interests in the VIE without our prior consent. In the event that the shareholders sell their equity interests to us or our designee at a price which is equal to or lower than the principal amount of the loan, the loan will be interest-free. If the price is higher than the principal amount of the loans, the excess amount will be deemed to be interest on the loans payable by the shareholders to us. The loan has a term of ten years and the WFOE has sole discretion to extend the loan upon expiry.

#### *Proxy agreement*

In order to ensure that we are able to make all of the decisions concerning the VIE, we have entered into a proxy agreement with the shareholders of the VIE. Pursuant to the proxy agreement, each of its shareholders has irrevocably appointed us as such shareholder’s attorney-in-fact to act for all matters pertaining to such shareholder’s shares in the VIE and to exercise all of their rights as shareholders, including but not limited to attending and voting at shareholders’ meetings. As such, we have the sole rights to designate and appoint directors and senior management members of the VIE. The proxy agreement will remain in effect until the respective shareholder ceases to hold any equity interest in the VIE.

#### *Equity pledge agreement*

In order to secure the performance of the VIE and its shareholders under the contractual arrangements, each shareholder of the VIE has undertaken to pledge all of their shares in the VIE to us. The share pledge has been registered with local PRC authorities. If the VIE or any of its shareholders breaches or defaults under any of the contractual arrangements, we have the right to require the transfer of the pledged equity interests in the VIE to us or our designee, to the extent permitted by laws, or require a sale of the pledged equity interest and have priority in any proceeds from the auction or sale of such pledged interests. Moreover, we have the right to collect any and all dividends in respect of the pledged equity interests during the term of the pledge. Unless the VIE and its shareholders have fully performed all of their obligations in accordance with the contractual arrangements and all debts have been fully paid by them to us, the equity pledge agreement will continue to remain in effect.

## Table of Contents

### *Business cooperation agreement*

Under this agreement, absent a prior written consent from the WFOE, the VIE may not itself or cause its subsidiaries or schools to sell, purchase, pledge or dispose of any assets, conduct any borrowings, or perform any transactions or activities that may cause a material effect on its assets, business and operations. In addition, the VIE agrees to follow the WFOE's instructions in its appointment and removal of directors and supervisors, and to cause its subsidiaries to engage candidates recommended by the WFOE as chief executives or principals. Moreover, if the VIE, its subsidiaries or schools desires a guarantee, it must first seek a guarantee from the WFOE. Only if the WFOE rejects or does not respond to its request within fifteen days can the VIE, its subsidiaries or schools, as applicable, seek a guarantee from a third party. If the WFOE agrees to provide a guarantee, it is entitled to a counter-guarantee, security or pledge from the VIE, its subsidiaries or schools, as applicable.

In addition, the VIE is entitled to pay a service fee to the WFOE, the amount of which is equal to its total revenue less any necessary costs, taxes and expenses. The WFOE has discretion to adjust and decide the amount to be paid by the VIE to the WFOE from time to time.

The initial term of this agreement is ten years, which will be automatically extended for another ten years unless otherwise notified by the WFOE.

All of the contractual arrangements as described above will be terminated once the respective shareholder has transferred all of such shareholder's equity interests in the VIE to us or our designee.

### ***Agreements that enable us to receive economic benefits from our VIE and its subsidiaries and schools***

In order to ensure that we receive the economic benefits of our VIE and its subsidiaries and schools, we have entered into a series of agreements with the VIE and schools. Under these agreements, we are entitled to substantially all of the economic benefits of our VIE and its subsidiaries and schools.

### *Business cooperation agreement*

See “—Agreements that provide us with effective control over the VIE” for key terms and conditions.

### *Consulting services agreements*

In 2014, Rise HK entered into a consulting service agreement with each of the WFOE and the VIE, under which Rise HK provided technical and business support services to the WFOE or the VIE, including development of the annual teaching plans and courseware, reviewing the academic department's implementation plans and budgets, evaluating the development results, and making decisions to carry out the newly-developed teaching plans and courseware. In return, each of the WFOE and the VIE agreed to pay a service fee to Rise HK. The term of this agreement was five years, renewable for another five years automatically unless one party does not consent.

On June 28, 2019, Rise HK entered into a new consulting service agreement with the WFOE, replacing the consulting service agreement with the WFOE entered in 2014. Under this new consulting service agreement, Rise HK provides strategic consulting services to the WFOE, including consulting services with respect to strategic planning on curriculum products and strategic consultation on curriculum products, and the WFOE agrees to pay a service fee to Rise HK. The initial term of this agreement is five years, which will be renewed for another five years automatically unless one party does not consent.

The consulting service agreement entered into between Rise HK and the VIE in 2014 was terminated as of June 28, 2019.

### *License agreement and service agreement with the VIE*

In 2014, the WFOE entered into a service agreement with the VIE, under which the WFOE provided certain services to the VIE, including designing of teaching plans, licensed use of the business management system developed by the WFOE and sale of textbooks and training materials to our franchise partners who signed the franchise agreements with the VIE. In return, the VIE was required to pay certain service fees to the WFOE. The term of this agreement was five years, renewable for another five years automatically unless the parties terminate this agreement in writing.

## [Table of Contents](#)

On June 28, 2019, the WFOE entered into a new service agreement, a consulting service agreement and a license agreement with the VIE, replacing the 2014 service agreement and our earlier license agreement. Under these agreement, the WFOE (i) authorizes the VIE to use our courseware and trademarks as well as the business management system developed by the WFOE, and (ii) provides certain services, including services with respect to academic support, branding, marketing and promotion support, customer service support and administrative support, to the VIE. In return, the VIE is required to pay royalties and service fees to the WFOE. The initial term of each of these agreements is five years, renewable for another five years automatically unless the parties terminate this agreement in writing.

### *License agreements and services agreements with schools*

The WFOE entered into a license agreement and a comprehensive service agreement with each of the schools under the VIE pursuant to which the WFOE provided certain services to these schools, including design of teaching plans, licensed use of the business management system developed by the WFOE, market promotion and operation support, as well as authorizing these schools to use our courseware and trademarks. In return, each of the schools was required to pay certain service royalties and fees to the WFOE. The initial term of each of these agreements was five years, renewable for another five years automatically unless the parties terminate this agreement in writing.

These agreements were terminated as of June 28, 2019, and replaced with a license agreement, a license agreement with respect to the management system, a service agreement and a framework agreement on purchase of teaching materials between the WFOE and each of the schools under the VIE dated as of the same date. Under these agreements, the WFOE continues to (i) authorize these schools to use our courseware and trademarks as well as the management systems developed by the WFOE, (ii) provide certain services, including services with respect to academic support, enrollment support, human resources support, financial management support, legal support, customer support, internet technology support and administrative support, to these schools, and (iii) sell our teaching materials to these schools at agreed upon prices. Each of the schools is required to pay royalties and service fees to the WFOE for the licenses and services provided by the WFOE. The initial term of each of these agreements is five years, renewable for another five years automatically unless the parties terminate this agreement in writing.

### ***Agreement that provides us with the option to purchase the equity interests in Beijing Step Ahead***

#### *Call option agreement*

In order to ensure that we are able to acquire all of the equity interests in the VIE at our discretion, we have entered into a call option agreement with the shareholders of the VIE. The option is exercisable by us at any time, provided that doing so is not prohibited by law. The exercise price under the option is the minimum amount required by law and any proceeds obtained by the respective shareholders through the transfer of their equity interests in the VIE shall be used for the repayment of the loans provided by us in accordance with the loan agreements. During the terms of the call option agreement, the shareholders will not grant a similar right or transfer any of the equity interests in the VIE to any party other than us or our designee, nor will such shareholder pledge, create or permit any security interest or similar encumbrance to be created on any of the equity interests. According to the call option agreement, the VIE cannot declare any profit distributions in any form without our prior consent. The call option agreement will remain in effect until the respective shareholder has transferred all of such shareholder's equity interests in the VIE to us or our designee.

Fangda Partners, our counsel as to PRC law, is of the view that the contractual arrangements among Rise HK, the WFOE, the VIE and its schools and shareholders which are governed by the laws of the PRC are valid, binding and enforceable in accordance with their terms and applicable laws, regulations or rules currently in effect in the PRC, and do not result in any violation of such laws, regulations or rules currently in effect. However, Fangda Partners has also advised us that there are substantial uncertainties regarding the interpretation and application of applicable laws, regulations or rules currently in effect in the PRC, and the PRC regulatory authorities and PRC courts may in the future take a view that is contrary to the opinion of our counsel as to PRC law. Moreover, if the VIE, its subsidiaries and schools or its shareholders fail to perform their obligations under the contractual arrangements, we may have to incur substantial costs and expend resources to enforce our rights as the primary beneficiary under these agreements. See "Item 3. Key Information—D. Risks Factors—Risks Related to Our Corporate Structure."

D. Property, Plants and Equipment

Our office headquarters occupy approximately 3,000 square meters of leased office space in Beijing, China. We also maintain approximately 200 square meters of leased office space in Tianjin, China. We believe that our current facilities are suitable and adequately meet our current needs. We will consider expanding our current facilities if the number of our employees significantly increases.

We lease a total area of approximately 106,016 square meters for self-owned learning centers as of December 31, 2019. These lease arrangements are typically for a period of at least five years, and are renewable upon mutual consent at the end of the lease period. Our franchise partners are responsible for entering into the lease arrangements for the premises on which our franchised schools are operated.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Item 3. Key Information—D. Risk Factors” and elsewhere in this annual report.*

A. Operating Results

**Overview**

We are a leading service provider in China’s junior ELT market, which refers to after-school English teaching and tutoring services provided by training institutions to students aged three to 18. We pioneered the “subject-based learning” teaching philosophy in China, whereby various subject matters, such as language arts, math, natural science and social science are used to teach English. We had 25,862 and 29,049 new students enrolled in 2018 and 2019, and 49,365 and 54,383 students in class as of December 31, 2018 and 2019, respectively, for our regular courses at self-owned learning centers. We currently offer three flagship courses, namely Rise Start, Rise On and Rise Up, that are designed for students aged three to six, seven to 12 and 13 to 18, respectively.

We devote significant resources to curriculum development to ensure that our course offerings are up-to-date, engaging and effective. As of December 31, 2019, we had 2,315 teachers in self-owned learning centers. The quality of our course offerings and our unique teaching philosophy has helped us develop a strong and powerful brand that is attractive to parents.

**Major Factors Affecting Our Results of Operations**

Our business and operating results are affected by factors that affect China’s junior ELT market generally. We have benefited from a number of market factors, including China’s rising birth rate largely resulting from adoption of the “two-child policy,” rising population in large urban centers, increases in average household income as well as the number of higher income families, limited penetration of junior ELT across China, favorable government policies that support the growth of private-sector education enterprises and permit increased operational and pricing flexibility, and the continued focus on study-abroad opportunities by parents.

At the same time, our results are subject to changes in the regulatory regime governing China’s education industry. The PRC government regulates various aspects of our business and operations, including the qualification and licensing requirements for entities that provide education services, standards for operating facilities, limitations on foreign investments in the education industry, and the effectiveness of the amended Law on the Promotion of Private Education and the implementation rules issued by local governments in China.

## [Table of Contents](#)

While our business is influenced by factors affecting the junior ELT market in China generally, we believe our results of operations are more directly affected by company-specific factors, including the major factors highlighted below.

### ***Number of Students***

We derive a large portion of our revenues from tuition and fees that we charge for our educational programs. Total students in class for our regular courses at self-owned learning centers increased by 15.1% from 42,873 as of December 31, 2017 to 49,365 as of December 31, 2018, and further by 10.2% to 54,383 as of December 31, 2019. New students enrolled for our regular courses at self-owned learning centers increased by 2.8% from 25,164 in 2017 to 25,862 in 2018, and further by 12.3% to 29,049 in 2019. Growth in our total students in class and new students enrolled depends on our ability to retain our current students and to recruit new students. Our ability to retain existing students is largely dependent on the variety and quality of our course offerings, the quality of teachers and the overall satisfaction of students and their parents with the educational services we offer. Our ability to recruit new students is largely dependent on our reputation and brand recognition, which are affected by our branding activities and other selling and marketing efforts.

### ***Number of Self-Owned Learning Centers***

Our revenue growth is also driven by the number of self-owned learning centers, which directly affects our total students in class and new students enrolled. Our ability to increase the number of self-owned learning centers depends on a variety of factors, including identifying suitable locations and hiring qualified teachers and other necessary personnel for the new learning centers.

The number of self-owned learning centers has grown steadily in recent years, increasing from 64 as of December 31, 2017 to 76 as of December 31, 2018, and further to 89 as of December 31, 2019. As our network grows in size, we believe that our large scale strengthens our brand, which in turn supports the further growth of our network.

### ***Pricing and Student Spending***

Our revenues are directly affected by the pricing of our products offered at self-owned learning centers and, to a lesser extent, at franchised learning centers. We aim to charge premium tuition and fees while keeping in mind the general income level of the relevant location, competition and the local demand of our services. Tuition and fees in franchised learning centers located in non-tier-one cities are generally lower than our self-owned learning centers, which are mostly located in tier-one cities. In addition to raising tuition, we also seek to increase average spending of students by offering online and other complementary products, such as overseas study tours.

### ***Scale and Success of Our Franchise Business***

We derive revenues from our franchise business through initial or renewal franchise fees, recurring franchise fees and the sale of individual course materials. Revenues from initial franchise fees are derived when we enter into arrangements with a franchise partner to open new franchised learning centers, and are mainly affected by the number of new franchised learning centers. We also receive renewal franchise fees from our existing franchise partners when they renew their franchise agreements. We also derive revenues from the sale of individual course materials and recurring franchise fees based on an agreed percentage of each franchised learning center's collected tuition fees. Such revenues are primarily driven by the total number of franchised learning centers and students enrolled at such franchised learning centers. The scale of our franchise business largely depends on our ability to attract and retain more franchise partners, the ability of our franchise partners to successfully launch new franchised learning centers, as well as the ability of our franchise partners to operate effectively, attract new students and retain existing students.

We have achieved steady growth of franchised learning centers in recent years. The number of franchised learning centers increased from 206 as of December 31, 2017 to 304 as of December 31, 2018, and further to 383 as of December 31, 2019. We expect the number of franchised learning centers to continue to grow.

## [Table of Contents](#)

### **Level of Our Costs and Expenses and Operating Efficiency**

Our ability to manage the costs and expenses of our operations directly affects our profitability.

Our cost of revenues primarily consists of personnel costs and rental costs for our learning centers. Variable costs such as salary and benefits for teachers generally increase with the increase of course delivering following the enrollment of new students. We strive to utilize our complementary products and other online technologies to facilitate the teaching at our learning centers and to enhance overall operating efficiency. Fixed costs, such as rental costs and other employee costs at self-owned learning centers, remain relatively stable. In general, learning centers with more students in class yield higher gross margins.

Our operating expenses consist of selling and marketing expenses, and general and administrative expenses.

Going forward, we expect that our total costs and expenses will increase in line with the expansion of our network of learning centers. We also plan to improve our operating efficiency and increase economies of scale.

### **Description of Certain Statement of Income Items**

#### **Revenues**

We generate revenues primarily from educational programs, franchise fees and other revenues. The table below sets forth the breakdown of our revenues, both in absolute amount and as a percentage of revenues, for the periods indicated.

|                      | For the Year Ended December 31,     |                        |                  |                        |                  |                |                        |
|----------------------|-------------------------------------|------------------------|------------------|------------------------|------------------|----------------|------------------------|
|                      | 2017                                |                        | 2018             |                        | 2019             |                |                        |
|                      | RMB                                 | Percentage of Revenues | RMB              | Percentage of Revenues | RMB              | US\$           | Percentage of Revenues |
|                      | (thousands, except for percentages) |                        |                  |                        |                  |                |                        |
| Educational programs | 835,065                             | 86.2                   | 1,097,619        | 86.3                   | 1,324,654        | 190,274        | 86.6                   |
| Franchise revenues   | 100,013                             | 10.3                   | 125,341          | 9.9                    | 156,509          | 22,481         | 10.2                   |
| Other revenues       | 34,197                              | 3.5                    | 48,928           | 3.8                    | 48,284           | 6,936          | 3.2                    |
| Revenues             | <u>969,275</u>                      | <u>100.0</u>           | <u>1,271,888</u> | <u>100.0</u>           | <u>1,529,447</u> | <u>219,691</u> | <u>100.0</u>           |

We provide junior English language training to students through our three flagship courses, namely, Rise Start, Rise On and Rise Up. We charge tuition and course material fees for our educational programs at self-owned learning centers. Tuition fees are collected in advance and are initially recorded as deferred revenue and customer advances and recognized ratably as revenue when the classes for the related course are delivered. If we reschedule classes due to school holidays, inclement weather, or health epidemics, or any other reason, we will not be able to recognize revenues until those classes are rescheduled. For example, during the third quarter of 2017, we rescheduled certain classes for some of these reasons. We recognize revenue from sale of course material fees once the student attends the first class of the respective course.

We generate franchise revenues from franchised learning centers through authorizing our franchise partners to use our brand products, as well as the provision of initial setup and ongoing franchise support services, including quality control of courses and centralized training for teachers from franchised learning centers. We receive an initial or renewal franchise fee when we enter into or renew a franchise agreement. During the term of the franchise, we charge each franchised learning center recurring franchise fees based on an agreed percentage of its monthly collected tuition fees and related individual course materials fees.

As of December 31, 2017, 2018 and 2019, we recorded deferred revenue and customer advances of RMB812.8 million, RMB1,038.8 million and RMB756.0 million (US\$108.6 million), respectively, which are primarily from our educational programs and, to a lesser extent, from our franchise business. Given that our tuition and fees are collected in advance, we expect to generate sufficient cash from our operating activities to meet our working capital and capital expenditure needs.

## [Table of Contents](#)

We generate other revenues primarily from Can-Talk and other courses and complimentary products, including Rise Overseas Study Tours, Rise Camps, Rise Workshop and courses and services for test preparation and college admission.

### **Cost of Revenues**

Our cost of revenues consists primarily of (i) personnel costs, including teachers' costs and, to a lesser extent, costs relating to our franchise service and supervision team and research and curriculum development team, (ii) rental costs, (iii) share-based compensation and (iv) others, including amortization of intangible assets, construction and design costs, course materials cost and other operating costs incurred to operate self-owned learning centers. Amortization of intangible assets includes amortization of courseware licenses, student base and franchise agreements that were mainly acquired as part of the acquisition of our business by RISE Education in 2013, or the 2013 acquisition. We expect cost of revenues to increase in line with our expansion of business. The table below sets forth a breakdown of our cost of revenues for the periods indicated.

|                          | For the Year Ended December 31,     |                        |                |                        |                |               |                        |
|--------------------------|-------------------------------------|------------------------|----------------|------------------------|----------------|---------------|------------------------|
|                          | 2017                                |                        | 2018           |                        | 2019           |               |                        |
|                          | RMB                                 | Percentage of Revenues | RMB            | Percentage of Revenues | RMB            | US\$          | Percentage of Revenues |
|                          | (thousands, except for percentages) |                        |                |                        |                |               |                        |
| Personnel costs          | 159,932                             | 16.5                   | 227,691        | 17.9                   | 298,710        | 42,907        | 19.5                   |
| Rental costs             | 146,678                             | 15.2                   | 181,457        | 14.3                   | 220,912        | 31,732        | 14.4                   |
| Share-based compensation | 17,063                              | 1.8                    | 1,315          | 0.1                    | 2,617          | 376           | 0.2                    |
| Others                   | 128,547                             | 13.2                   | 166,067        | 13.0                   | 172,454        | 24,771        | 11.3                   |
| <b>Total</b>             | <b>452,220</b>                      | <b>46.7</b>            | <b>576,530</b> | <b>45.3</b>            | <b>694,693</b> | <b>99,786</b> | <b>45.4</b>            |

### **Operating Expenses**

Our operating expenses consist of selling and marketing expenses and general and administrative expenses. The table below sets forth our operating expenses, both in absolute amount and as a percentage of revenues, for the periods indicated.

|                                 | For the Year Ended December 31,     |                        |                |                        |                |               |                        |
|---------------------------------|-------------------------------------|------------------------|----------------|------------------------|----------------|---------------|------------------------|
|                                 | 2017                                |                        | 2018           |                        | 2019           |               |                        |
|                                 | RMB                                 | Percentage of Revenues | RMB            | Percentage of Revenues | RMB            | US\$          | Percentage of Revenues |
|                                 | (thousands, except for percentages) |                        |                |                        |                |               |                        |
| Selling and marketing           | 177,993                             | 18.4                   | 245,662        | 19.3                   | 307,339        | 44,146        | 20.1                   |
| General and administrative      | 339,690                             | 35.0                   | 242,084        | 19.0                   | 304,626        | 43,757        | 19.9                   |
| <b>Total operating expenses</b> | <b>517,683</b>                      | <b>53.4</b>            | <b>487,746</b> | <b>38.3</b>            | <b>611,965</b> | <b>87,903</b> | <b>40.0</b>            |

#### *Selling and marketing expenses*

Our selling and marketing expenses consist primarily of (i) general marketing channel and personnel expenses, and (ii) branding and promotional expenses, including market channel expenses. We expect that our selling and marketing expenses will continue to increase in absolute amounts as we continue to market our products and expand into new geographic regions. We also recorded amortization of trademarks used for brand promotion acquired as part of the 2013 acquisition under selling and marketing expenses.

#### *General and administrative expenses*

Our general and administrative expenses mainly consist of (i) personnel expenses related to management and other employees, (ii) fees paid to professional parties, (iii) rental expenses for administrative facilities and (iv) IPO-related expenses, one-off expenses and share-based compensation.

## Results of Operations

The table below sets forth a summary of our consolidated results of operations for the periods indicated, both in absolute amounts and as percentages of our revenues. This information should be read together with our consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

|   | For the Year Ended December 31, |                        |                  |                        |                  |                 |                        |
|---|---------------------------------|------------------------|------------------|------------------------|------------------|-----------------|------------------------|
|   | 2017                            |                        | 2018             |                        | 2019             |                 |                        |
|   | RMB                             | Percentage of Revenues | RMB              | Percentage of Revenues | RMB              | US\$            | Percentage of Revenues |
| <b>Revenues:</b>  |                                 |                        |                  |                        |                  |                 |                        |
| Educational programs <sup>(1)</sup>                           | 835,065                         | 86.2                   | 1,097,619        | 86.3                   | 1,324,654        | 190,274         | 86.6                   |
| Franchise revenues <sup>(1)</sup>                             | 100,013                         | 10.3                   | 125,341          | 9.9                    | 156,509          | 22,481          | 10.2                   |
| Other revenues <sup>(1)</sup>                                 | 34,197                          | 3.5                    | 48,928           | 3.8                    | 48,284           | 6,936           | 3.2                    |
| <b>Total</b>  | <b>969,275</b>                  | <b>100.0</b>           | <b>1,271,888</b> | <b>100.0</b>           | <b>1,529,447</b> | <b>219,691</b>  | <b>100.0</b>           |
| Cost of revenues  | (452,220)                       | (46.7)                 | (576,530)        | (45.3)                 | (694,693)        | (99,786)        | (45.4)                 |
| Gross profit  | 517,055                         | 53.3                   | 695,358          | 54.7                   | 834,754          | 119,905         | 54.6                   |
| <b>Operating expenses:</b>                                    |                                 |                        |                  |                        |                  |                 |                        |
| Selling and marketing   | (177,993)                       | (18.4)                 | (245,662)        | (19.3)                 | (307,339)        | (44,146)        | (20.1)                 |
| General and administrative                                    | (339,690)                       | (35.0)                 | (242,084)        | (19.0)                 | (304,626)        | (43,757)        | (19.9)                 |
| <b>Total operating expenses</b>                               | <b>(517,683)</b>                | <b>(53.4)</b>          | <b>(487,746)</b> | <b>(38.3)</b>          | <b>(611,965)</b> | <b>(87,903)</b> | <b>(40.0)</b>          |
| Operating (loss)/income                                       | (628)                           | —                      | 207,612          | 16.3                   | 222,789          | 32,002          | 14.6                   |
| Interest income   | 19,559                          | 2.0                    | 26,376           | 2.1                    | 17,952           | 2,579           | 1.2                    |
| Interest expense  | (26,589)                        | (2.7)                  | (33,803)         | (2.7)                  | (34,093)         | (4,897)         | (2.2)                  |
| Foreign currency exchange gain/(loss)                         | 388                             | —                      | (1,383)          | (0.1)                  | (1,506)          | (216)           | (0.1)                  |
| Other income, net   | 6,594                           | 0.7                    | 15,397           | 1.2                    | 10,115           | 1,452           | 0.7                    |
| (Loss)/Income before income tax expense                       | (676)                           | —                      | 214,199          | 16.8                   | 215,257          | 30,920          | 14.1                   |
| Income tax expense  | (52,924)                        | (5.5)                  | (71,763)         | (5.6)                  | (70,697)         | (10,155)        | (4.6)                  |
| Net (loss)/income   | (53,600)                        | (5.5)                  | 142,436          | 11.2                   | 144,560          | 20,765          | 9.5                    |
| Net loss attributable to non-controlling interests            | 5,626                           | 0.6                    | 522              | —                      | 3,540            | 508             | 0.2                    |
| Net (loss)/income attributable to RISE Education Cayman Ltd   | (47,974)                        | (4.9)                  | 142,958          | 11.2                   | 148,100          | 21,273          | 9.7                    |
| <b>Non-GAAP Financial Measures:</b>                           |                                 |                        |                  |                        |                  |                 |                        |
| EBITDA <sup>(2)</sup>   | 56,064                          |                        | 279,852          |                        | 301,419          | 43,296          |                        |
| EBITDA margin <sup>(3)</sup>                                  | 5.8%                            |                        | 22.0%            |                        | 19.7%            |                 | 19.7%                  |
| Adjusted EBITDA   | 242,510                         |                        | 300,204          |                        | 349,308          | 50,175          | 349,308                |
| Adjusted EBITDA margin  | 25.0%                           |                        | 23.6%            |                        | 22.8%            |                 | 22.8%                  |
| Non-GAAP net income attributable to RISE Education Cayman Ltd | 144,954                         |                        | 179,932          |                        | 213,363          | 30,647          | 213,363                |

- (1) To be consistent with our management reporting framework, revenues from educational programs include revenues generated by The Edge starting from the first quarter of 2019. Revenues from educational programs in previous years have been adjusted to conform to the presentation in 2019.
- (2) To see how we define and calculate EBITDA, a reconciliation between EBITDA and net (loss)/income and a discussion about the limitations of non-GAAP financial measures, see “—Non-GAAP Financial Measures.”
- (3) EBITDA margin is calculated by dividing EBITDA by revenues.

**Year Ended December 31, 2019 Compared to Year Ended December 31, 2018**

*Revenues*

Our revenues increased by 20.3% from RMB1,271.9 million in 2018 to RMB1,529.4 million (US\$219.7 million) in 2019. This increase was primarily attributable to an increase of RMB227.0 million (US\$32.6 million) in revenues from educational programs.

- *Educational programs.* Our revenues from educational programs increased by 20.7% from RMB1,097.6 million in 2018 to RMB1,324.7 million (US\$190.3 million) in 2019. This increase was primarily due to (i) an increase in students in class for our regular courses at self-owned learning centers, and (ii) an increase in prices for our regular courses from the beginning of the year.
- *Franchise revenues.* Our franchise revenues increased by 24.9% from RMB125.3 million in 2018 to RMB156.5 million (US\$22.5 million) in 2019. This increase was primarily due to increases in the recurring franchise fees from our existing franchised learning centers in 2019 as well as initial and renewal franchise fees for franchised learning centers that were either new or renewed their franchise agreements with us. The number of franchised learning centers increased from 304 as of December 31, 2018 to 383 as of December 31, 2019.
- *Other revenues.* Our other revenues decreased by 1.3% from RMB48.9 million in 2018 to RMB48.3 million (US\$6.9 million) in 2019.

*Cost of revenues*

Our cost of revenues increased by 20.5% from RMB576.5 million in 2018 to RMB694.7 million (US\$99.8 million) in 2019, primarily due to increases in both rental costs and personnel costs. Rental costs increased as we further expanded our operations in 2019, while the increase in personnel costs was primarily attributable to an increase of teacher headcount, total course teaching hours and teacher compensation at our self-owned learning centers.

*Gross profit*

As a result of foregoing, our gross profit increased by 20.0% from RMB695.4 million in 2018 to RMB834.8 million (US\$119.9 million) in 2019. We had gross margins of 54.7% in 2018 and 54.6% in 2019. Excluding the impact of share-based compensation and amortization of intangible assets arising from the 2013 acquisition, gross profit for the full year of 2019 was RMB851.5 million (US\$122.3 million), and gross margin was 55.7%.

*Selling and marketing expenses*

Our selling and marketing expenses were RMB307.3 million (US\$44.1 million) in 2019, as compared with RMB245.7 million in 2018. This increase was primarily due to a headcount increase and an incentive-related salary raise for the Company's marketing staff. Our selling and marketing expenses accounted for 19.3% and 20.1% of our revenues in 2018 and 2019, respectively.

*General and administrative expenses*

Our general and administrative expenses increased by 25.8% from RMB242.1 million in 2018 to RMB 304.6 million (US\$43.8 million) in 2019. This increase was primarily attributable to (i) increased share-based compensation expenses associated with new option grants during the second quarter of 2019, (ii) an increase in personnel costs and rental costs associated with our expanding business, and (iii) an increase in professional service fees related to acquisitions and our strategic projects. Our general and administrative expenses accounted for 19.0% and 19.9% of our revenues in 2018 and 2019, respectively.

*Operating income*

As a result of the foregoing, we had an operating income of RMB222.8 million (US\$32.0 million) in 2019, compared to an operating income of RMB207.6 million in 2018. Excluding the impact of share-based compensation expenses, amortization of intangible assets in the 2013 acquisition, IPO-related expenses and one-off expenses, our operating income was RMB244.6 million and RMB288.1 million (US\$41.4 million) in the full year of 2018 and 2019, respectively.

## [Table of Contents](#)

### *Interest income, interest expense, foreign currency exchange loss and other income, net*

We had interest income of RMB26.4 million and RMB18.0 million (US\$2.6 million) in 2018 and 2019, respectively, which are primarily from our holdings of interest-bearing short-term investments. We had interest expense of RMB33.8 million and RMB34.1 million (US\$4.9 million) in 2018 and 2019, respectively. We had foreign exchange losses of RMB1.4 million and RMB1.5 million (US\$0.2 million) in 2018 and 2019, respectively. We had other net income of RMB15.4 million and RMB10.1 million (US\$1.5 million) in 2018 and 2019, respectively.

### *Income before income tax expense*

As a result of the foregoing, we had income before income tax expense of RMB215.3 million (US\$30.9 million) in 2019, compared to RMB214.2 million in 2018.

### *Income tax expense*

We had an income tax expense of RMB71.8 million and RMB70.7 million (US\$10.2 million) in 2018 and 2019, respectively.

### *Net income/ (loss)*

As a result of the foregoing, we had net income of RMB144.6 million (US\$20.8 million) in 2019, compared to RMB142.4 million in 2018. Excluding the impact of share-based compensation, amortization of intangible assets in the 2013 acquisition, IPO-related expenses, one-off expenses as well as impact on income tax expenses, net income increased from RMB179.4 million for the full year 2018 to RMB209.8 million (US\$30.1 million) in 2019, which was primarily due to higher revenues.

### *EBITDA*

EBITDA, which is net income or loss before interest, taxes, depreciation and amortization, was RMB301.4 million (US\$43.3 million) in 2019, compared to RMB279.9 million in 2018. Adjusted EBITDA for the full year of 2019 was RMB349.3 million (US\$50.2 million), which increased by 16.4% compared with RMB300.2 million for the full year of 2018. For a discussion of the limitations associated with using EBITDA rather than U.S. GAAP measures and a reconciliation of RMB156.9 million (US\$22.5 million) to net income or loss, see “—Non-GAAP Financial Measures”.

## ***Year Ended December 31, 2018 Compared to Year Ended December 31, 2017***

### *Revenues*

Our revenues increased by 31.2% from RMB969.3 million in 2017 to RMB1,271.9 million (US\$185.0 million) in 2018. This increase was primarily attributable to an increase of RMB240.5 million (US\$35.0 million) in revenues from educational programs.

- *Educational programs.* Our revenues from educational programs increased by 31.4% from RMB835.1 million in 2017 to RMB1,097.6 million in 2018. This increase was primarily due to an increase in students in class for our regular courses at self-owned learning centers. The increase in students in class was attributable to (i) higher retention rate for existing students at existing learning centers as they matured as well as an increase in new students enrolled due to greater sales and marketing efforts in 2018; and (ii) an increase in the number of self-owned learning centers, from 64 as of December 31, 2017 to 76 as of December 31, 2018.
- *Franchise revenues.* Our franchise revenues increased by 25.2% from RMB100.0 million in 2017 to RMB125.2 million in 2018. This increase was primarily due to increases in the recurring franchise fees from our existing franchised learning centers in 2018 as well as initial and renewal franchise fees for franchised learning centers that were either new or renewed their franchise agreements with us. The number of franchised learning centers increased from 206 as of December 31, 2017 to 304 as of December 31, 2018.

## Table of Contents

- *Other revenues.* Our other revenues increased by 43.1% from RMB34.2 million in 2017 to RMB48.9 million in 2018. The increase was primarily due to an increase in revenues generated from business acquired from the Edge acquisition, as well as our increasingly diversified complementary educational products such as Rise Overseas Study Tour and Can-Talk online education program.

### *Cost of revenues*

Our cost of revenues increased by 27.5% from RMB452.2 million in 2017 to RMB576.5 million in 2018, primarily due to increases in both rental costs and personnel costs. Rental costs increased as we further expanded our operations in 2018, while the increase in personnel costs was primarily attributable to an increase of teacher headcount and total course teaching hours at self-owned learning centers.

### *Gross profit*

As a result of the foregoing, our gross profit increased by 34.5% from RMB517.1 million in 2017 to RMB695.4 million in 2018. We had gross margins of 53.3% in 2017 and 54.7% in 2018. Excluding the impact of share-based compensation and amortization of intangible assets arising from the 2013 acquisition, gross profit for the full year of 2018 was RMB710.2 million, and gross margin was 55.8%.

### *Selling and marketing expenses*

Our selling and marketing expenses were RMB245.7 million in 2018, as compared with RMB178.0 million in 2017. This increase was primarily due to an increase in marketing channel expenses and personnel costs associated with our expanding network of self-owned learning centers. Our selling and marketing expenses accounted for 18.4% and 19.3% of our revenues in 2017 and 2018, respectively.

### *General and administrative expenses*

Our general and administrative expenses decreased by 28.7% from RMB339.7 million in 2017 to RMB242.1 million in 2018. This decrease was primarily attributable to share-based compensation expense recognized upon IPO, IPO-related expenses, and one-off expenses recognized in the fourth quarter of 2017 which were non-recurring, which were partially offset by increased personnel costs and office expenses in support of our expanding business. Our general and administrative expenses accounted for 35.0% and 19.0% of our revenues in 2017 and 2018, respectively.

### *Operating income/(loss)*

As a result of the foregoing, we had an operating income of RMB207.6 million in 2018, compared to an operating loss of RMB0.6 million in 2017. Excluding the impact of share-based compensation expenses, amortization of intangible assets in the 2013 acquisition, IPO-related expenses and one-off expenses, our operating income was RMB202.8 million and RMB244.6 million in the full year of 2017 and 2018, respectively.

### *Interest income, interest expense, foreign currency exchange loss and other income, net*

We had interest income of RMB19.6 million and RMB26.4 million in 2017 and 2018, respectively, which are primarily from holdings of interest-bearing short-term investments. We had interest expense of RMB26.6 million and RMB33.8 million in 2017 and 2018, respectively. We had foreign currency exchange gain of RMB0.4 million and foreign exchange loss of RMB1.4 million in 2017 and 2018, respectively. We had other income, net of RMB6.6 million and RMB15.4 million in 2017 and 2018, respectively.

### *Income before income tax expense*

As a result of the foregoing, we had income before income tax expense of RMB214.2 million in 2018, compared to loss before income tax expense of RMB0.7 million in 2017.

### *Income tax expense*

We had an income tax expense of RMB52.9 million and RMB71.8 million in 2017 and 2018, respectively.

## Table of Contents

### Net income/ (loss)

As a result of the foregoing, we had net income of RMB142.4 million in 2018, compared to net loss of RMB53.6 million in 2017. Excluding the impact of share-based compensation, amortization of intangible assets in the 2013 acquisition, IPO-related expenses, one-off expenses as well as impact on income tax expenses, net income increased from RMB139.3 million for the full year 2017 to RMB179.4 million in 2018, which was primarily due to higher revenues.

### EBITDA

EBITDA, which is net income or loss before interest, taxes, depreciation and amortization, was RMB279.9 million in 2018, compared to RMB56.1 million in 2017. Adjusted EBITDA for the full year of 2018 was RMB300.2 million, which increased by 23.8% comparing with RMB242.5 million for the full year of 2017. For a discussion of the limitations associated with using EBITDA rather than U.S. GAAP measures and a reconciliation of RMB137.4 million to net income or loss, see “—Non-GAAP Financial Measures”.

### Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with U.S. GAAP, we use EBITDA, EBITDA margin, adjusted EBITDA, adjusted EBITDA margin, and non-GAAP net income, each a non-GAAP financial measures as described below, to understand and evaluate our core operating performance. These non-GAAP financial measures, which may differ from similarly titled measures used by other companies, are presented to enhance investors’ overall understanding of our financial performance and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP.

EBITDA is defined as net income or loss before interest, taxes, depreciation and amortization. EBITDA margin is defined as EBITDA as a percentage of revenues. We believe that EBITDA and EBITDA margin provide useful information to investors and others in understanding and evaluating our operating results. Adjusted EBITDA excludes IPO-related expenses, one-off expenses and share-based compensation from EBITDA. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of revenues. Non-GAAP net income excludes share-based compensation, intangible assets amortization arising from the 2013 acquisition, IPO-related expenses, one-off expenses, and the impact on income tax expenses. These non-GAAP financial measures eliminate the impact of items that we do not consider indicative of the performance of our business. While we believe that these non-GAAP financial measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute for the related financial information prepared in accordance with U.S. GAAP.

The tables below present reconciliations of EBITDA, adjusted EBITDA and non-GAAP net income to net (loss)/income, as well as EBITDA margin and adjusted EBITDA margin, for the periods indicated.

|  | For the Year Ended December 31,       |                |                |               |
|--|---------------------------------------|----------------|----------------|---------------|
|  | 2017                                  | 2018           | 2019           |               |
|  | RMB                                   | RMB            | RMB            | US\$          |
|  | (thousands, except for EBITDA margin) |                |                |               |
| <b>Net income/(loss)</b>                                   | <b>(53,600)</b>                       | <b>142,436</b> | 144,560        | 20,765        |
| Add: Depreciation  | 29,246                                | 36,027         | 45,375         | 6,518         |
| Add: Amortization  | 20,465                                | 22,199         | 24,646         | 3,540         |
| Add: Interest expense                                      | 26,588                                | 33,803         | 34,093         | 4,897         |
| Add: Income tax expense                                    | 52,924                                | 71,763         | 70,697         | 10,155        |
| Less: Interest income                                      | 19,559                                | 26,376         | 17,952         | 2,579         |
| <b>EBITDA</b>  | <b>56,064</b>                         | <b>279,852</b> | <b>301,419</b> | <b>43,296</b> |
| Add: Share-based compensation                              | 95,307                                | 20,352         | 47,889         | 6,879         |
| Add: IPO-related expenses                                  | 52,907                                | —              | —              | —             |
| Add: One-off expenses                                      | 38,232                                | —              | —              | —             |
| <b>Adjusted EBITDA</b>                                     | <b>242,510</b>                        | <b>300,204</b> | 349,308        | 50,175        |
| EBITDA margin  | 5.8%                                  | 22.0%          | 19.7%          |               |
| Adjusted EBITDA margin                                     | 25.0%                                 | 23.6%          | 22.8%          |               |
| <b>Net income/(loss)</b>                                   | <b>(53,600)</b>                       | <b>142,436</b> | 144,560        | 20,765        |
| Add: Share-based compensation                              | 95,307                                | 20,352         | 47,889         | 6,879         |
| Add: IPO-related expenses                                  | 52,907                                | —              | —              | —             |
| Add: One-off expenses                                      | 38,232                                | —              | —              | —             |
| Add: Income tax expenses                                   | (10,532)                              | —              | —              | —             |
| Add: Amortization of intangible assets in 2013 acquisition | 17,014                                | 16,622         | 17,374         | 2,495         |
| <b>Non-GAAP net income</b>                                 | <b>139,328</b>                        | <b>179,410</b> | <b>209,823</b> | <b>30,139</b> |

B. Liquidity and Capital Resources

**Cash Flows and Working Capital**

Our principal sources of liquidity have been from cash generated from operating activities. As of December 31, 2017, 2018 and 2019, we had RMB1,084.9 million, RMB1,316.8 million and RMB1,022.8 million (US\$146.9 million), respectively, in cash, cash equivalents and restricted cash. Cash and cash equivalents consist of cash on hand placed with banks or other financial institutions and highly liquid investment which are unrestricted as to withdrawal and use and have original maturities of three months or less when purchased. Our cash, cash equivalents and restricted cash are primarily denominated in Renminbi.

We intend to finance our future working capital requirements and capital expenditures from cash generated from operating activities and funds raised from financing activities. As an offshore holding company, we are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries through loans or capital contributions, subject to applicable regulatory approvals. We cannot assure you that we will be able to obtain these regulatory approvals on a timely basis, if at all. See “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from using the proceeds of our initial public offering or other funding to make loans or additional capital contributions to our PRC subsidiaries and consolidated affiliates, which could materially and adversely affect our liquidity and our ability to fund and expand our business.” We believe that our current available cash and cash equivalents will be sufficient to meet our working capital requirements and capital expenditures in the ordinary course of business for the next twelve months.

However, we may require additional cash resources due to changing business conditions or other future developments, including any investments or acquisitions we may decide to selectively pursue. If our existing cash resources are insufficient to meet our requirements, we may seek to sell equity or equity-linked securities, sell debt securities or borrow from banks. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities would result in additional dilution to our shareholders. The incurrence of indebtedness and issuance of debt securities would result in debt service obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders.

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. In September 2017, we paid cash dividends totaling US\$87.0 million to our shareholders and we did not make any dividend payment to our shareholders in 2018 and 2019.

As a holding company with no material operations of our own, we are a corporation separate and apart from our subsidiaries and our VIE and its subsidiaries and, therefore, must provide for our own liquidity. We conduct our primary operations in China primarily through our PRC subsidiary and our VIE and its subsidiaries and schools. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by our subsidiaries, our VIE and its subsidiaries and schools. If our PRC subsidiary or any newly formed PRC subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our PRC subsidiaries are permitted to pay dividends to us only out of their respective retained earnings, if any, as determined in accordance with Chinese accounting standards and regulations.

Under applicable PRC laws and regulations, our PRC subsidiaries and schools are each required to set aside a portion of its after tax profits each year to fund certain statutory reserves, and funds from such reserves may not be distributed to us as cash dividends except in the event of liquidation of such subsidiaries. These statutory limitations affect, and future covenant debt limitations might affect, our PRC subsidiaries’ ability to pay dividends to us. We currently believe that such limitations will not impact our ability to meet our ongoing short-term cash obligations although we cannot assure you that such limitations will not affect our ability to meet our short-term cash obligations and to distribute dividends to our shareholders in the future.

The following table sets forth a summary of our cash flows for the periods presented:

|  | For the Year Ended December 31, |           |           |          |
|--|---------------------------------|-----------|-----------|----------|
|  | 2017                            | 2018      | 2019      |          |
|  | RMB                             | RMB       | RMB       | US\$     |
|  | (thousands)                     |           |           |          |
| Net cash generated from/(used in) operating activities               | 350,100                         | 380,034   | (39,854)  | (5,725)  |
| Net cash used in investing activities                                | (53,067)                        | (100,875) | (114,716) | (16,478) |
| Net cash generated from/(used in) financing activities               | 137,402                         | (57,306)  | (140,732) | (20,215) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (6,228)                         | 10,037    | 1,342     | 193      |
| Net increase in cash, cash equivalents and restricted cash           | 428,207                         | 231,890   | (293,960) | (42,225) |
| Cash, cash equivalents and restricted cash at beginning of period    | 656,688                         | 1,084,895 | 1,316,785 | 189,145  |
| Cash, cash equivalents and restricted cash at end of period          | 1,084,895                       | 1,316,785 | 1,022,825 | 146,920  |

#### *Operating activities*

Net cash used in operating activities amounted to RMB39.9 million (US\$5.7 million) in 2019. The difference between our net income of RMB144.6 million (US\$20.8 million) and the net cash used in operating activities was due to (i) an decrease in deferred revenue and customer advances of RMB331.7 million (US\$47.6 million), (ii) an adjustment of RMB132.0 million (US\$19.0 million) in non-cash items, which mainly consisted of depreciation and amortization expense of RMB70.0 million (US\$10.1 million) and share-based compensation of RMB47.9 million (US\$6.9 million). Deferred revenue and customer advances mainly consists of the upfront tuition fee payments from students and initial franchise fees from our franchise partners, which decreased in 2019 primarily due to the change of tuition fee collection schedule.

Net cash generated from operating activities amounted to RMB380.0 million in 2018. The difference between our net income of RMB142.4 million and the net cash generated from operating activities was due to (i) an increase in deferred revenue and customer advances of RMB181.8 million, (ii) an adjustment of RMB91.7 million in non-cash items, which mainly consisted of depreciation and amortization expense of RMB58.2 million and share-based compensation of RMB18.6 million, partially offset by an increase in prepayments and other current assets of RMB29.8 million for prepayments to certain suppliers and marketing channel service providers, as well as rental expenses; and our settlement of the amount due to a related party of RMB20.0 million. Deferred revenue and customer advances mainly consists of the upfront tuition fee payments from students and initial franchise fees from our franchise partners, which increased in 2018 primarily due to an increased number of new students enrolled and higher retention rate for existing students in class, as well as increased number of newly opened franchised learning centers as our business expanded.

Net cash generated from operating activities amounted to RMB350.1 million in 2017. The difference between our net loss of RMB53.6 million and the net cash generated from operating activities was due to (i) an increase in deferred revenue and customer advances of RMB201.0 million, (ii) an adjustment of RMB151.3 million in non-cash items, which mainly consisted of share-based compensation of RMB95.3 million and depreciation and amortization expense of RMB49.7 million, (iii) an increase in accrued expenses and other current liabilities of RMB47.4 million. Deferred revenue and customer advances mainly consists of the upfront tuition fee payments from students and initial franchise fees from our franchise partners, which increased in 2017 primarily due to an increased number of new students enrolled and higher retention rate for existing students in class, as well as increased number of newly opened franchised learning centers as our business expanded.

#### *Investing activities*

Net cash used in investing activities amounted to RMB114.7 million (US\$16.5 million) in 2019. This was primarily attributable to (i) the purchase of property and equipment of RMB50.8 million (US\$7.3 million), (ii) acquisition of subsidiaries of RMB19.3 million (US\$2.8 million), which was mainly in relation to the Shijiazhuang acquisition, (iii) purchase of intangible assets of RMB11.6 million (US\$1.7 million) primarily related to software additions, (iv) long-term equity investment of RMB33.0 million (US\$4.7 million) in New York City Kids Club, an early learning service provider, as part of our strategic partnership.

## [Table of Contents](#)

Net cash used in investing activities amounted to RMB100.9 million in 2018. This was primarily attributable to (i) the purchase of property and equipment of RMB65.2 million, (ii) acquisition of subsidiaries of RMB18.1 million, which was mainly in relation to the Edge acquisition, (iii) advance payment for Shijiazhuang acquisition amounting to approximately RMB8.9 million, and (iv) purchase of intangible assets of RMB8.8 million primarily related to software additions.

Net cash used in investing activities amounted to RMB53.1 million in 2017. This was primarily attributable to the purchase of property and equipment of RMB50.3 million and purchase of intangible assets of RMB2.7 million as we opened new self-owned learning centers.

### *Financing activities*

Net cash used in financing activities amounted to RMB140.7 million (US\$20.2 million) in 2019, primarily attributable to principal repayments on short-term loan of RMB97.3 million (US\$14.0 million) and net cash used in stock repurchase of RMB48.0 million (US\$6.9 million). This is partially offset by proceeds from exercise of stock options of RMB4.6 million (US\$0.7 million).

Net cash used in financing activities amounted to RMB57.3 million in 2018, primarily attributable to principal repayments on long-term loan of RMB75.9 million and net cash used in stock repurchase of RMB21.4 million. This is partially offset by proceeds from exercise of stock options of RMB40.0 million.

Net cash generated from financing activities amounted to RMB137.4 million in 2017, primarily attributable to net proceeds from our initial public offering of RMB437.8 million and net proceeds from loans of RMB573.0 million provided by CTBC Bank Co., Ltd. Incurred in 2017, which was partially offset by distribution of RMB571.8 million to a shareholder.

### *Long-term loan*

In July 2016, RISE Education Cayman I Ltd, our wholly-owned subsidiary, entered into a US\$55.0 million loan facility agreement with CTBC Bank Co. Ltd. as the lender, which was amended and restated in September 2017 to a long-term facility of US\$110.0 million, including the outstanding balance of US\$49.5 million under the original loan facility, and a short-term facility of US\$30.0 million. The long-term facility is guaranteed by Rise IP, Rise HK, the WFOE and the VIE. Rise HK also pledged its equity interests in the WFOE in favor of the lender as security for the long-term facility. We have registered the guarantee provided by the WFOE with SAFE. We did not register the guarantee provided by our VIE with SAFE pursuant to a waiver for such registration granted by the lender. In addition, we have deposited a certain amount of cash in a designated bank account as security for the interest payments under the long-term facility.

We drew down both facilities in full in September 2017. The new proceeds made available under the September 2017 amendment were primarily used to pay a US\$87.0 million dividend to our shareholders in September 2017. Pursuant to the loan facility agreement, we must repay the short-term facility in full within ten business days of the completion of an initial public offering, which we used US\$30 million, a portion of the proceeds of our initial public offering to do. The maturity date of the long-term facility is five years from the drawdown date. According to the original repayment schedule, US\$8.25 million, US\$13.75 million, US\$19.25 million, US\$24.75 million and US\$44.00 million are to be repaid by each respective anniversary from the drawdown date. The interest rate under the long-term facility is the sum of the London interbank offered rate plus a certain margin, of which the margin decreases as our leverage ratio (which is defined as the ratio of total net debt as of the last date of the relevant period to adjusted EBITDA in respect of the relevant period) decreases. As of the date of this annual report, the estimated interest rate is 3.9%. We prepaid US\$10.0 million in December 2017, US\$12.0 million in March 2018 and US\$13.75 million in September 2019, and the repayment schedule was thereby updated to US\$19.25 million, US\$24.75 million and US\$30.25 million, respectively to be paid by each respective anniversary from the year of 2020. We intend to repay the long-term facility through dividends paid by Rise HK, which is wholly-owned by RISE Education Cayman I Ltd, the borrower under the loan facility agreement. These entities receive license and service fees from the WFOE and the VIE pursuant to the license agreements and the consulting service agreements. As such payments come from the respective current accounts of our WFOE and VIE, they are generally not restricted under PRC law. See “Item 4. Information of the Company—B. Business Overview—Regulations Related to Foreign Exchange.”

We maintained deposits held in a designated bank account as security for interest payments amounting to US\$1.5 million as of December 31, 2019.

## Table of Contents

### Capital expenditures

Our capital expenditures amounted to RMB53.1 million, RMB74.0 million and RMB62.4 million (US\$9.0 million) in 2017, 2018 and 2019, respectively, for purchases of property and equipment and intangible assets, such as course materials and software, as we expanded existing and opened new self-owned learning centers. We will continue to make capital expenditures to meet the expected growth of our business and expect that cash generated from our operating activities and financing activities will meet our capital expenditure needs in the foreseeable future.

### Holding Company Structure

We are a holding company with no material operations of our own. We conduct our operations primarily through our subsidiaries and our VIE and its subsidiaries and schools in China. As a result, our ability to pay dividends depends upon dividends paid by our subsidiaries, which in turn depends on the service and license fees paid to Rise HK and the WFOE by the VIE and its schools. As we invest in and expand our PRC operations in the future, Rise HK and the WFOE will continue to rely on service and license fees from our VIE and the schools and we will rely on dividends from Rise HK and the WFOE for our cash needs. Furthermore, if our subsidiaries or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us.

The table below sets forth the respective revenue contributions of (i) our company and our Cayman Island subsidiaries, (ii) our Hong Kong subsidiaries, i.e., Rise HK and Edge, and (iii) our WFOE and (iv) our VIE and its subsidiaries and schools for the periods indicated as a percentage of revenues:

|  | For the Year Ended December 31, |             |             |
|--|---------------------------------|-------------|-------------|
|  | 2017                            | 2018        | 2019        |
| Our company and our subsidiaries           |                                 |             |             |
| Our company and Cayman Island subsidiaries | —                               | —           | —           |
| Our Hong Kong subsidiaries                 | 0.4%                            | 2.1%        | 1.8%        |
| WFOE                                       | 5.5%                            | 5.5%        | 3.8%        |
| Our VIE and its subsidiaries and schools   | 94.1%                           | 92.4%       | 94.4%       |
| <b>Total Revenues</b>                      | <b>100%</b>                     | <b>100%</b> | <b>100%</b> |

The table below sets forth the amount of (i) license fees paid to our Cayman Island subsidiaries by our VIE pursuant to the license agreements, (ii) service fees paid to Rise HK by our VIE pursuant to the consulting service agreement, and (iii) service fees paid to our WFOE by our VIE and its subsidiaries and schools pursuant to the service agreement and consulting service agreements and license fees paid to our WFOE by our VIE and its subsidiaries and schools pursuant to the license agreements for the periods indicated:

|  | For the Year Ended December 31, |         |         |        |
|--|---------------------------------|---------|---------|--------|
|  | 2017                            | 2018    | 2019    |        |
|  | RMB                             | RMB     | RMB     | US\$   |
|  | (thousands)                     |         |         |        |
| License fees paid to our Cayman Islands subsidiaries | 12,531                          | 17,514  | 14,080  | 2,022  |
| Service fees paid to Rise HK*                        | 10,025                          | 14,016  | —       | —      |
| Service fees and license fees paid to our WFOE       | 256,423                         | 207,118 | 348,699 | 50,088 |

\* Starting 2019, service fees were paid by our VIE and its subsidiaries and schools to our WFOE pursuant to the service agreements and consulting service agreements entered into by our WFOE and our VIE or its subsidiaries or schools.

Our subsidiaries including WFOE did not pay any dividends to our company in 2017, 2018 and 2019.

Our primary operations are based in the PRC. Our assets are primarily located in the PRC and Hong Kong. The table below sets forth the respective asset contributions of (i) our company and our Cayman Island subsidiaries, (ii) our Hong Kong subsidiaries, i.e. Rise HK and Edge, (iii) our WFOE and (iv) our VIE and its subsidiaries and schools as of the dates indicated as a percentage of total assets:

|  | For the Year Ended December 31, |             |             |
|--|---------------------------------|-------------|-------------|
|  | 2017                            | 2018        | 2019        |
| Our company and our subsidiaries         |                                 |             |             |
| Our company and Cayman subsidiaries      | 30%                             | 24%         | 8%          |
| Our Hong Kong subsidiaries               | 4%                              | 4%          | 10%         |
| WFOE                                     | 16%                             | 12%         | 13%         |
| Our VIE and its subsidiaries and schools | 50%                             | 60%         | 69%         |
| <b>Total Assets</b>                      | <b>100%</b>                     | <b>100%</b> | <b>100%</b> |

## Critical Accounting Policies

We prepare our financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect our reporting of, among other things, assets and liabilities, contingent assets and liabilities and revenues and expenses. Our estimates and judgments include valuation allowance for deferred tax assets, uncertain tax positions, economic lives and impairment of long-lived assets, impairment of goodwill, estimating the best estimate selling price of each deliverable in our revenue arrangements, and share-based compensation. We regularly evaluate these estimates and assumptions based on the most recently available information, our own historical experiences and other factors that we believe to be relevant under the circumstances. Since our financial reporting process inherently relies on the use of estimates and assumptions, our actual results could differ from what we expect. This is especially true with some accounting policies that require higher degrees of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our audited consolidated financial statements because they involve the greatest reliance on our management's judgment.

### Revenue Recognition

On January 1, 2018, we adopted ASC 606, *Revenue from contracts with customers* ("ASC 606") utilizing the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Accordingly, revenues for the years ended December 31, 2018 and 2019 were presented in accordance with ASC 606, and revenues for the year ended December 31, 2017 was not adjusted and continued to be presented in accordance with ASC 605, *Revenue Recognition*. The cumulative effect of adopting ASC 606 resulted in an adjustment to increase the opening balance of accumulated deficit on January 1, 2018 by RMB44.1 million, with the impact related to the recognition of initial franchise fees. Our accounting policy before January 1, 2018 was to recognize initial franchise fees when franchisees commence operations under the RISE brand or upon the renewal of the franchise agreements. In accordance with ASC 606, the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement, and will therefore, be treated as a single performance obligation. Therefore, initial franchise fees should be recognized over the franchise term, which is generally five years under ASC 606.

Our revenue recognition policies following the adoption of ASC 606 are as follows:

Revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that we determine is within the scope of the new revenue recognition accounting standard, we perform the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. We only apply the five-step model to contracts when it is probable that we will collect the consideration which is entitled to in exchange for the goods or services transferred to the customer. At contract inception, we assess the goods or services promised within each contract to determine those that represent performance obligations, and assess whether each promised good or service is distinct. We then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Revenue is recognized net of business tax, value added taxes and tax surcharges.

Contract liabilities relate to contracts where we received payments but has not yet satisfied the related performance obligations. The advance consideration received from customers for the services is a contract liability until services are provided to the customer and are presented in "deferred revenue and customer advances" in the consolidated balance sheets.

Contract assets include costs to obtain contracts with customers. Costs to obtain contracts with customers are incremental costs to obtain franchise contracts, which are recorded as prepayment and other current assets, and other non-current assets depending on the estimated life of the underlying franchise contacts.

The primary sources of our revenues are as follows:

(a) Educational programs

Educational programs' contracts generally consist of two performance obligations, English courses and course materials, which are both capable of being distinct and distinct in the context of the contract. The transaction price is stated in the contract and known at the time of contract inception, therefore no variable consideration exists. We may issue promotional coupons to attract enrollment for its courses. The promotional coupons are not issued in conjunction with a concurrent revenue transaction and are for a fixed RMB amount that can only be redeemed to reduce the amount of the tuition fees for future courses. The promotional coupons are accounted for as a reduction of the transaction price and are allocated across all performance obligations unless observable evidence exists that the discount relates to a specific performance obligation or obligations in the contract. Revenue is allocated to each performance obligation based on its standalone selling price. We generally determine standalone selling prices based on the prices charged to students. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

Course fees are collected in advance of the commencement of each course and each course comprises of a fixed amount of classes. We use the student's daily attendance records, an output measure, to recognize revenue over time as it best depicts the simultaneous consumption and delivery of educational program services. Students are allowed to return course materials if they are unused. However, once the student attends the first class of the respective course, course materials cannot be returned. Therefore, revenue associated with distinct course materials is recognized at the point in time when control transfers to the student, generally when the student attends the first class of the respective course.

According to local education bureau regulations, depending on a school's location and the amount of classes remaining for a course, we may be required to refund course fees for any remaining undelivered classes to students who withdraw from a course. The refund is recorded as a reduction of the related course fees received in advance and has no impact on recognized revenue. Refunds on recognized revenue were insignificant for all periods presented.

Starting during the first quarter of 2019, revenues from educational programs include revenues generated by The Edge, which was previously reported in the Other line item. Revenues from educational programs in prior periods have been adjusted for consistency and comparability (Note 5). The Edge offers admission consulting, academic tutoring and test preparation services for students who intend to study abroad and each service represents an individual performance obligation. For admission consulting services, we use the input method by reference to the consulting hours incurred up to the end of reporting period as a percentage of total estimated hours to recognize revenue over a fixed contract period, which best depicts our efforts toward satisfying the performance obligation relative to the total expected efforts. For academic tutoring and test preparation services, we use students' attendance records, an output measure, to recognize revenue over time as it best depicts the simultaneous consumption and delivery of such services.

(b) Franchise revenues

Franchise revenues includes non-refundable initial franchise fees and the recurring franchise fees from its franchisees. The initial franchise services to be performed under the franchise agreements to earn the initial franchise fees comprise of (i) authorizing franchisees to use the RISE brand and our courseware, and (ii) initial setup services, including assisting with site selection and marketing strategy, training of franchisee management and teachers. Our franchise agreements do not include guarantees or other forms of financial assistance, refund provisions or options to repurchase franchises from franchisees. In accordance with the new revenue recognition standard, the initial franchise services are not distinct from the continuing rights offered during the term of the franchise agreement and will therefore be treated as a single performance obligation. As such, beginning in January 2018, initial franchise fees are deferred and recorded as "deferred revenue and customer advances", and are recognized over the franchise term as the performance obligation is satisfied, which is generally five years. We also receive sales-based recurring franchise fees from its franchisees, which include a fixed percentage of the franchisees' course fees and proceeds from the sale of related course materials. The recurring franchise fees are recognized at the time the underlying franchisees' sale of services occur.

(c) Other revenues

Other revenues comprise mainly of the provision of overseas and domestic study tour services. We determined the overseas study tours contract contains a single performance obligation and we are the principal in providing overseas study tours services as it controls such services before the services are transferred to the customer. Therefore, we recognize study tours revenue on a gross basis. We recognize revenue over the service period of the study tour, which is, generally around two to three weeks, as it best depicts the simultaneous consumption and delivery of overseas study tours services.

**Consolidation of VIE**

Our consolidated financial statements include the financial statements of our holding company, our subsidiaries and our VIE and its subsidiaries and schools for which one of our subsidiaries is the primary beneficiary. All significant inter-company transactions and balances between us, our subsidiaries and our VIE and its subsidiaries and schools are eliminated upon consolidation.

PRC laws and regulations currently require any foreign entity that invests in the education industry in China to be an educational institution with relevant experience in providing educational services outside China. Our offshore holding companies are not educational institutions and do not provide educational services outside China. Accordingly, our offshore holding companies are not allowed to directly engage in the education industry in China. To comply with PRC laws and regulations, we conduct all of our junior ELT business in China through our VIE, namely Beijing Step Ahead and its subsidiaries and schools. Our VIE and its subsidiaries and schools hold the requisite licenses and permits necessary to conduct our junior ELT business. In addition, our VIE and its subsidiaries and schools hold leases and other assets necessary to operate our schools, employ teachers and generate substantially all of our revenues. Despite the lack of technical majority ownership, we have effective control of our VIE through a series of contractual arrangements, and a parent-subsidiary relationship exists between us and our VIE. The equity interests of our VIE are legally held by PRC individuals, or the nominee shareholders. Through the contractual agreements, the nominee shareholders of our VIE effectively assigned all their voting rights underlying their equity interests in our VIE to us, and therefore, we have the power to direct the activities of our VIE that most significantly impact its economic performance. We also have the right to receive economic benefits from our VIE that potentially could be significant to our VIE. Based on the above, we consolidate our VIE in accordance with SEC Regulation SX-3A-02 and ASC810-10, Consolidation: Overall.

In November 2016, certain contractual agreements were supplemented to reflect a change in one of the nominee shareholders designated by Rise HK; and it was resolved that Rise HK through our WFOE held the irrevocable proxy to exercise all the voting rights of the shareholders of our VIE since the proxy agreement was in existence. As a result, Rise HK has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and is the primary beneficiary of the VIE.

For more information on consolidation of our VIE, see Note 1 to our audited consolidated financial statements appearing elsewhere in this annual report.

**Share-based Compensation**

We apply ASC 718, Compensation — Stock Compensation (“ASC 718”), to account for its employee share-based payments. In accordance with ASC 718, we determine whether an award should be classified and accounted for as a liability award or an equity award. All our share-based awards to employees were classified as equity awards.

In accordance with ASC 718, we recognize share-based compensation cost for equity awards to employees with a performance condition based on the probable outcome of that performance condition — compensation cost is recognized if it is probable that the performance condition will be achieved and shall not be recognized if it is not probable that the performance condition will be achieved.

In accordance with ASC 718, the effect of a market condition is reflected in the grant-date fair value of the granted equity awards. We recognize share-based compensation cost for equity awards with a market condition provided that the requisite service is rendered, regardless of when, if ever, the market condition is satisfied.

## [Table of Contents](#)

A change in any of the terms or conditions of the awards is accounted for as a modification of the award. When the vesting conditions (or other terms) of the equity awards granted to employees are modified, we first determine on the modification date whether the original vesting conditions were expected to be satisfied, regardless of the entity's policy election for accounting for forfeitures. If the original vesting conditions are not expected to be satisfied, the grant-date fair value of the original equity awards are ignored, and the fair value of the equity award measured at the modification date is recognized if the modified award ultimately vests. When a vesting condition that is probable of achievement is modified and the new vesting condition also is probable of achievement, the compensation cost to be recognized if either the original vesting condition or the new vesting condition is achieved cannot be less than the grant-date fair value of the original award. That compensation cost is recognized if either the original or modified vesting condition is achieved. Cancellation of the awards accompanied by the concurrent grant of a replacement award is also accounted for as a modification of the terms of the cancelled awards. Therefore, incremental compensation cost shall be measured as the excess of the fair value of the replacement award or other valuable consideration over the fair value of the cancelled award at the cancellation date.

Incremental compensation cost is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the fair value of the awards and other pertinent factors at the modification date. For vested awards, we recognize incremental compensation cost in the period the modification occurs. For unvested awards, we recognize over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. If the fair value of the modified award is lower than the fair value of the original award immediately before modification, the minimum compensation cost we recognize is the cost of the original award.

We use the accelerated method for all awards granted with graded vesting service conditions, and the straight-line method for awards granted with non-graded vesting service conditions. We account for forfeitures as they occur. We, with the assistance of an independent third party valuation firm, determined the fair value of the stock options granted to employees. The binomial option pricing model and Monte Carlo simulation model were applied in determining the estimated fair value of the options granted to employees.

The following table summarizes our equity award activity under the 2016 and 2017 ESOP Plans as of December 31, 2019:

|   | <u>As of December 31, 2019</u> |
|---|--------------------------------|
| Number of options granted <sup>(1)</sup>        | 12,068,000                     |
| Number of options forfeited                     | (513,500)                      |
| Number of options exercised                     | (4,856,781)                    |
| Number of options outstanding                   | 6,697,719                      |
| Weighted-average exercise price (US\$)          | 1.44                           |
| Weighted-average remaining contractual term     | 8.10                           |
| Aggregate intrinsic value (US\$) <sup>(2)</sup> | 4,259,501                      |

(1) 2,053,000 ordinary shares were vested during 2019.

(2) The aggregate intrinsic value in the table above represents the difference between the fair value of our ordinary share as of December 31, 2019 and respective exercise price of the option. Total intrinsic value of options outstanding as of December 31, 2018 and 2019 were US\$5,840,000 and US\$4,260,000, respectively.

Share-based compensation expense of RMB95.3 million, RMB20.4 million and RMB47.9 million (US\$6.9 million) were recorded for the year ended December 31, 2017, 2018 and 2019, respectively. As of December 31, 2019, there was RMB50.1 million (US\$7.3 million) of total unrecognized employee share-based compensation expenses, related to unvested share-based awards. Total unrecognized compensation cost may be adjusted for actual forfeitures occurring in the future.

### ***Fair Value of Our Share Options***

We estimate the fair value of share options with market conditions using the Monte Carlo simulation model and all other share options using the binomial option-pricing model with the assistance of an independent third party appraiser. The models require the input of highly subjective assumptions including the estimated expected share price volatility and the share price upon which our employees are likely to exercise share options, or the exercise multiple. We historically have been a private company and lack information on our share price volatility. Therefore, we estimate our expected share price volatility based on the historical volatility of a group of similar companies that are publicly-traded. When selecting these public companies on which we have based our expected share price volatility, we selected companies with characteristics similar to us, including the invested capital's value, business model, risk profiles, position within the industry, and with historical share price information sufficient to meet the contractual life of our share options. We will continue to apply this process until a sufficient amount of historical information regarding the volatility of our own share price becomes available. For the exercise multiple, as a private company, we were not able to develop an exercise pattern as reference, thus the exercise multiple is based on management's estimation, which we believe is representative of the future exercise pattern of the options. The risk-free interest rates for the periods within the contractual life of the option are based on the U.S. Treasury yield curve in effect during the period the options were granted.

These assumptions represented our best estimates, but the estimates involve inherent uncertainties and the application of our judgment. As a result, if factors change and we use significantly different assumptions or estimates when valuing our share options, our share-based compensation expense could be materially different.

### ***Income taxes***

We follow the liability method of accounting for income taxes in accordance with ASC 740, Income Taxes ("ASC 740"). Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. We record a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

We accounted for uncertainties in income taxes in accordance with ASC 740. Interest and penalties arising from underpayment of income taxes shall be computed in accordance with the related PRC tax law. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest and penalties recognized in accordance with ASC 740 are classified in the consolidated statements of (loss)/ income as income tax expense.

In accordance with the provisions of ASC 740, we recognize in its consolidated financial statements the impact of a tax position if a tax return position or future tax position is "more likely than not" to prevail based on the facts and technical merits of the position. Tax positions that meet the "more likely than not" recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. Our estimated liability for unrecognized tax benefits which is included in "other non-current liabilities" on the consolidated balance sheets is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The actual benefits ultimately realized may differ from our estimates. As each audit is concluded, adjustments, if any, are recorded in our consolidated financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require us to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

As of December 31, 2017, 2018 and 2019, we had unrecognized tax benefits of RMB8.8 million, RMB7.6 million and RMB29.6 million (US\$4.2 million), of which RMB1.4 million, RMB1.4 million and nil were offset against the deferred tax assets on tax losses carry forward, and the remaining amount of RMB7.4 million, RMB6.2 million and RMB29.6 million (US\$4.2 million) which if ultimately recognized, would impact the effective tax rate.

### ***Business Combinations***

We account for business combinations using the purchase method of accounting in accordance with ASC 805, Business Combinations. The purchase method accounting requires that the consideration transferred be allocated to the assets, including separately identifiable assets and liabilities we acquired, based on their estimated fair values. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

## [Table of Contents](#)

In a business combination achieved in stages, we re-measured our previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in earnings.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and non-controlling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. We determine discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

### **Leases**

We adopted ASU No. 2016-02, Leases (Topic 842) ("ASC 842") from January 1, 2019 by using the modified retrospective method and did not restate the comparable periods. We have elected the package of practical expedients, which allows us not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. We elected the short-term lease exemption for all contracts with lease terms of 12 months or less. We have lease agreements with lease and non-lease components, which are generally accounted for separately.

We determine if an arrangement is a lease or contains a lease at lease inception. For operating leases, we recognize a right-of-use ("ROU") asset and a lease liability based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. As most of our leases do not provide an implicit rate, we estimate its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The ROU assets also include any lease payments made, net of lease incentives. Lease expense is recorded on a straight-line basis over the lease term.

For more information on our leases, see Note 2 to our audited consolidated financial statements appearing elsewhere in this annual report.

### **Off-Balance Sheet Commitments and Arrangements**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

### **Taxation**

#### ***Cayman Islands***

We are incorporated in the Cayman Islands and our primary business operations are conducted through our subsidiaries and our VIE and its subsidiaries and schools. Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gains arising in Cayman Islands. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

### **Hong Kong**

Our wholly owned subsidiaries in Hong Kong, Rise HK and Edge Franchising Co., Ltd., are subject to Hong Kong profits tax on their activities conducted in Hong Kong, which is currently imposed at the rate of 16.5% under the half-rate of 8.25% that may apply for the first HK\$2,000,000 of assessable profits for years of assessment beginning on or after April 1, 2018. Payments of dividends by our subsidiaries in Hong Kong to us are not subject to withholding tax in Hong Kong.

### **PRC**

Our WFOE, VIE and its subsidiaries and schools are subject to PRC enterprise income tax on their taxable income in accordance with the relevant PRC Enterprise Income Tax Law, or EIT Law. Pursuant to the EIT Law, which became effective on January 1, 2008 and was amended on February 24, 2017 and December 29, 2018, a uniform 25% enterprise income tax rate is generally applicable to both foreign-invested enterprises and domestic enterprises, except where a special preferential rate applies. Our WFOE became qualified as “High and New Technology Enterprises” (“HNTE”) in year 2019 and enjoyed a preferential rate at 15%. The HNTE qualification is effective for a period of three years.

The enterprise income tax is calculated based on the entity’s global income as determined under PRC tax laws and accounting standards.

We are subject to value-added tax at a rate of 6% on the services we provide. Tax payable amount of value-added tax relating to the services we provide was the output tax amount in a tax period minus input tax amount in the same period. Pursuant to Notice of the Ministry of Finance and the State Administration of Taxation on Further Clarifying the Policies regarding Reinsurance, Immovable Property Leasing and Non-Academic Education in the Comprehensive Promotion of the Pilot Program of Replacing Business Tax with Value-Added Tax which was promulgated on June 18, 2016, our schools are subject to a simple value-added tax collection method and many of our schools are subject to value-added tax at a rate 3%. We are also subject to surcharges on value-added tax payments in accordance with PRC law.

As a Cayman Islands holding company, we may receive dividends from our PRC subsidiary through Rise HK. Pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Tax Evasion on Income, the withholding tax rate in respect to the payment of dividends by a PRC enterprise to a Hong Kong enterprise may be reduced to 5% from a standard rate of 10% if the Hong Kong enterprise directly holds at least 25% of the PRC enterprise. Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements issued by the State Administration of Taxation on February 20, 2009, or SAT Circular 81, a Hong Kong resident enterprise must meet the following conditions, among others, in order to apply the reduced withholding tax rate: (i) it must be a company; (ii) it must directly own the required percentage of equity interests and voting rights in the PRC resident enterprise; and (iii) it must have directly owned such required percentage in the PRC resident enterprise throughout the 12 months prior to receiving the dividends. In August 2015, the State Administration of Taxation promulgated the Administrative Measures for Non-Resident Taxpayers to Enjoy Treatment under Tax Treaties, or SAT Circular 60, which became effective on November 1, 2015. SAT Circular 60 provides that non-resident enterprises are not required to obtain pre-approval from the relevant tax authority in order to enjoy the reduced withholding tax. Instead, non-resident enterprises and their withholding agents may, by self-assessment and on confirmation that the prescribed criteria to enjoy the tax treaty benefits are met, directly apply the reduced withholding tax rate, and file necessary forms and supporting documents when performing tax filings, which will be subject to post-tax filing examinations by the relevant tax authorities. Accordingly, Rise HK may be able to benefit from the 5% withholding tax rate for the dividends it receives from the WFOE, if it satisfies the conditions prescribed under SAT Circular 81 and other relevant tax rules and regulations. However, according to SAT Circular 81 and SAT Circular 60, if the relevant tax authorities consider the transactions or arrangements we have are for the primary purpose of enjoying a favorable tax treatment, the relevant tax authorities may adjust the favorable withholding tax in the future.

If our holding company in the Cayman Islands or any of our subsidiaries outside of China were deemed to be a “resident enterprise” under the EIT Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See “Item 3. Key Information—D. Risk Factors—Risks Related to Doing Business in China—Under the PRC Enterprise Income Tax Law, or the EIT Law, we may be classified as a PRC ‘resident enterprise,’ which could result in unfavorable tax consequences to us and our non-PRC shareholders.”

## Recent Accounting Pronouncements

Please see a detailed discussion in Note 2 to our consolidated financial statements included elsewhere in this annual report.

### C. [Research and Development, Patents and Licenses, etc.](#)

## Research and Curriculum Development

See “Item 4. Information of the Company—B. Business Overview—Research and Curriculum Development.”

## Intellectual Property

See “Item 4. Information of the Company—B. Business Overview—Intellectual Property.”

### D. [Trend Information](#)

In December 2019, the novel coronavirus, or COVID-19, was first reported to have surfaced in Wuhan, China. Subsequent to December 31, 2019, COVID-19 has spread rapidly to many parts of China and other parts of the world. The pandemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and facilities in China and elsewhere. The COVID-19 outbreak and preventative or protective actions taken by the PRC government in respect of this outbreak had caused business disruption, including the temporary closure of our learning centers and offices since late January 2020, and materially and adversely affected our results of operations and liquidity position. For the impact of the COVID-19 outbreak on our business operations, see “Item 3. Key Information—D. Risk Factors Risks—Related to Our Business and Industry—Our business, financial performance and liquidity position have been, and are expected to continue to be, adversely affected by the COVID-19 outbreak in China, and our historically reported financial information may not be indicative of our operating results or financial condition for 2020.”

We have been closely monitoring the development of the COVID-19 situation, and we are taking necessary actions to ensure the health and safety of our employees and students and to strengthen our financial position and liquidity. In response to the pandemic outbreak and the business disruption that followed, we have proactively taken measures to accelerate the execution of our digitalization strategy, and conducted all material aspects of our business online during the closure of our learning centers and offices. For example, we have developed more than 400 lessons for both our online small group classes and for digital marketing purposes, and upgraded our existing online platform, Rise+, to support the delivery of online small group classes. We first offered a two-week free trial period of our online small group classes to all students in February 2020, and started selling online small group classes to both existing and new students during the last week of February 2020 and recognizing revenue in early March 2020. In addition, we also started acquiring students through online marketing channels as a supplement to our regular offline channels, which used to be our major source of student acquisition prior to the outbreak of COVID-19. We plan to move offline regular courses online towards the end of April to start recognizing revenue for these regular courses and to mitigate the negative impact of the COVID-19 outbreak on our business.

Furthermore, we have been taking actions to improve our liquidity, including reducing capital expenditures and operating expenses while maintaining quality and safety standards, and temporarily suspending the opening of new learning centers. In addition, we have been communicating with the lenders of our existing loan facility to address any potential breach of the financial covenants contained in such loan facilities. We are also reviewing a number of options to optimize our debt financing structure and seek additional financing.

We believe that the COVID-19 outbreak will speed up the evolution of online education by driving significant online penetration and shifting both demand and supply to the new online-merge-offline, or OMO, model. The afterschool tutoring industry in China has seen increasing customer acceptance of online teaching approach with a proven and well-developed technology infrastructure in place. On the other hand, we believe that our regular offline courses will remain an effective and favored model, particularly for younger kids. Therefore, we believe that afterschool tutoring service providers with the ability to implement an OMO model like us will be better positioned to succeed in the future and we remain confident in the growth opportunities of the education market and the strong demand for afterschool English tutoring services in China.

While there are recently positive developments in China such as phased resumption of business in certain regions, there is no clear timetable for the re-opening of most of our learning centers. As we continue to navigate this evolving and challenging situation, we believe that the financial impact of COVID-19 will be short-termed. However, due to the adverse effect of COVID-19 on our business, operations and financial performance in the first quarter and potentially a majority of the year 2020, we cannot predict its full impact on our business prospects, financial performance and cash flows. Based on the actions we have taken and our current assumptions regarding the impact of the COVID-19 outbreak, we believe that our current financial resources will be adequate to cover our liquidity needs for at least next 12 months. However, we currently expect a net loss for the year ending December 31, 2020.

## Table of Contents

Other than as disclosed above and elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2019 to December 31, 2019 that are reasonably likely to have a material adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause reported financial information not necessarily to be indicative of future operating results or financial conditions.

### E. Off-balance Sheet Arrangements

As of December 31, 2019, we did not have any off-balance sheet arrangements that had or were reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### F. Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations as of December 31, 2019.

|  | Payment Due by Period |         |                |         |         |           |
|--|-----------------------|---------|----------------|---------|---------|-----------|
|  | Total                 |         | Less Than      | 2-3     | 4-5     | More than |
|  | RMB                   | US\$    | 1 Year         | Years   | Years   | 5 Years   |
|  |                       |         | (in thousands) |         |         |           |
| Operating lease obligations <sup>(1)</sup> | 704,630               | 101,214 | 184,225        | 288,993 | 146,122 | 85,290    |

- (1) Represented future minimum lease payments under non-cancelable operating leases in connection with the leases of offices and self-owned learning centers.

The following table sets forth our future minimum capital commitments under non-cancelable contracts as of December 31, 2019.

|  | As of December 31, 2019 |       |
|--|-------------------------|-------|
|  | RMB                     | US\$  |
| Construction of leasehold improvements | 9,010                   | 1,294 |

All capital expenditure commitments are expected to be paid within one year.

### G. Safe Harbor

See “Forward-Looking Statements” at the beginning of this annual report.

## **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

### A. Directors and Senior Management

Our board of directors reviewed the scope and roles and responsibilities of the executive officers in 2019 and determined that our executive officers for the US securities law purposes include our chief executive officer and chief financial officer/chief operating officer. The following table provides information regarding our directors and executive officers as of the date of this annual report.

| Directors and Executive Officers | Age | Position/Title   |
|----------------------------------|-----|--|
| Lihong Wang                      | 52  | Chairwoman, Chief Executive Officer, Director                            |
| Jonathan Jia Zhu                 | 57  | Director, Chairman of the corporate governance and nominating committees |
| Yiding Sun                       | 52  | Vice Chairman, Director  |
| Zhongjue Chen                    | 41  | Director   |
| Jiandong Lu                      | 50  | Director, Chief Financial Officer, Chief Operating Officer               |
| Yong Chen                        | 59  | Independent Director   |
| Haiping Yan                      | 60  | Independent Director   |
| Weili Hong                       | 50  | Independent Director   |
| Jun Yan                          | 37  | Independent Director   |

## [Table of Contents](#)

**Lihong Wang** has served as our director since September 2013, as our chairwoman since October 2017 and was appointed our chief executive officer in January 2020. Ms. Wang has 14 years of experience in private equity industry. Ms. Wang joined Bain Capital Asia in 2006 and has served as a managing director since January 2011. Ms. Wang served as an executive director in Morgan Stanley Dean Witter Asia Limited from 2005 to 2006. She served as a vice president in J.P. Morgan Securities (Asia Pacific) Limited from 2001 to 2005. She served as an associate and a manager in Credit Suisse First Boston from 1996 to 2001. Ms. Wang served as a deputy division chief in China Securities Regulatory Commission from 1993 to 1996. She served as a research associate in Stock Exchange Executive Council from 1990 to 1993. Ms. Wang received an MBA degree from Columbia Business School in 1999 and a Bachelor of Science degree from Fudan University in 1990.

**Jonathan Jia Zhu** was appointed our director and chairman of our corporate governance and nominating committee in January 2020. Mr. Zhu is co-head of Bain Capital Asia Private Equity. He previously served on our board of directors from September 2013 to October 2017. Mr. Zhu joined Bain Capital Private Equity as Managing Director in 2006. Prior to joining Bain Capital Private Equity, Mr. Zhu was an investment banker at Morgan Stanley and CEO of its China business sector. Mr. Zhu holds a Juris Doctor degree from Cornell Law School, a Master's degree from Nanjing University, and a Bachelor's degree from Zhengzhou University.

**Yiding Sun** was appointed our director in September 2013 and our vice chairman in January 2020, when he retired to be our chief operating officer while remaining on our board of directors. Mr. Sun has seven years of experience in education industry. Prior to joining us, Mr. Sun served as chief executive officer in Gymboree China Group from 2011 to 2013. Mr. Sun also served as the executive director, vice president of operation, vice chairman and manager in Gome Electrical Appliances Holding Ltd., a company listed on the Stock Exchange of Hong Kong, from 1999 to 2011. During his time at Gome Electrical Appliances Holding, he obtained ample managerial experience in equity trading and investments, commercial real estate management, mergers and acquisitions, strategic planning, marketing and sales and multi-brand operation. Mr. Sun received an EMBA degree from China Europe International Business School in 2013 and a bachelor's degree in science from East China University of Science and Technology in 1990.

**Zhongjue Chen** has served as our director since October 2013. Mr. Chen has over 15 years of experience in the investment, finance and consulting industries in the United States and Asia. Mr. Chen joined Bain Capital Private Equity in 2005 and is currently a managing director, mainly responsible for managing Bain Capital's private equity investments in Greater China and Asia Pacific region. His focus is on the technology, media, education and business services sectors. Mr. Chen served as an associate consultant in Bain & Company from 2001 to 2003, serving clients in the consumer products, financial services and healthcare sectors. Mr. Chen received an MBA degree from Harvard Business School in 2005 and a Bachelor's degree in economics from Harvard College in 2001.

**Jiandong Lu** served as our independent director since October 2017. Ms. Lu was appointed as our chief operating officer in September 2018, when she ceased to be our independent director while continued to serve as on our board of directors. In January 2019, Ms. Lu also assumed the role of our chief financial officer. Ms. Lu has served as a managing director in the Global Real Asset Asia Fund of J.P. Morgan Asset Management from 2015 to 2017, and served as a managing director and chief operating officer in J.P. Morgan First Capital Securities Ltd. from 2012 to 2015. Ms. Lu joined J.P. Morgan Securities (Asia Pacific) Ltd. as an associate in 2001 and became a managing director in 2011. Ms. Lu served as a senior representative in John Hancock Mutual Life Insurance Company from 1994 to 1999, and she also served as a public officer and chief translator in The Chinese People's Friendship Association with Foreign Countries from 1991 to 1994. Ms. Lu received an MBA degree from the Wharton School at the University of Pennsylvania in 2001 and a Bachelor's degree from Beijing International Studies University in 1991.

**Yong Chen** has served as our independent director since October 2017. Mr. Chen has been a professor at the University of California, Irvine, or UCI, since 1993, where he began as an assistant professor, then as an associate professor in 1999 before attaining full professorship in 2014. He has also served as an associate dean for curricular and student services since 2017. Mr. Chen was a guest professor at Nanchang Hangkong University from 2014 to 2015, a guest professor at Hebei Normal University from 2009 to 2010, and a guest professor at Huazhong University of Science and Technology from 2003 to 2005. Mr. Chen received a PhD degree in history from Cornell University in 1993, a Master's degree in history from Peking University in 1985 and a Bachelor's degree in history from Peking University in 1982.

**Haiping Yan** has served as our independent director since September 2018. Ms. Yan has been Tsinghua Academy Professor of Cross-cultural Studies, the Chair of the Department of Foreign Languages and Literatures, Director of Tsinghua-Michigan Society of Fellows, and the Dean of the Institute for World Literatures and Cultures (IWLC) at Tsinghua University since 2014. Before she relocated back to China in 2012, she was Full Professor at Cornell University from 2008 to 2012 and Full Professor at UCLA from 2003 to 2008 respectively. She was the 2009-2011 Founding Director of Cornell-ECNU Center for Comparative Humanities and the 2008-2011 Director of Cornell Institute for Chinese Studies. Ms. Yan was the invited Norman Freehling Professor at the Humanities Institute of the University of Michigan at Ann Arbor from 2007 to 2008, an invited seminar leader of Cornell School of Criticism and Theory in 2006. From 1991 to 2003, she was Assistant Professor at Oberlin College and Associate Professor at the University of Colorado at Boulder. Ms. Yan received a PhD degree from Cornell University in 1990 and a Bachelor's degree from Fudan University in 1982.

**Weili Hong** has served as our independent director since September 2018. Prior to that, Dr. Hong has served as the President and Chief Research Officer of CMC Holdings from 2016 to 2018. Prior to joining CMC, Dr. Hong was a partner of the Gopher Asset Management (China's No.1 leading FOFs management company) from 2014 to 2016, in charge of PE/VC FOFs and direct investments. He also served as the managing partner of KTB China from 2008 to 2012, and the head of BD in ING China from 2004 to 2007. Dr. Hong was one of the pioneers of China's capital market since he joined Shanghai Stock Exchange at its forming stage in 1992, where he served in several important positions and developed China's first financial futures product. From 1997 to 2004, Dr. Hong had served as a managing director of the securities business of China Venture-Tech Investment Group and the head of its Shanghai Branch. Dr. Hong received his Bachelor's degree in 1992 and Doctor's degrees in Economics in 1999 from Fudan University. Dr. Hong currently serves as a Guest Professor and a supervisor of the Master Degree Program in the School of Economics; and a Guest Professor of the Fanhai International School of Finance, Fudan University. Dr. Hong is also an independent director of Luolai Lifestyle Technology Co., Ltd.

**Jun Yan** served as our independent director since September 2018. Mr. Yan was general manager of strategic partnerships at Google China from 2017 to 2019. From 2016 to 2017, he served as vice president in VIP.com, the third largest eCommerce platform in China, and he also served as a managing director in Fosun Group prior to VIP.com. Mr. Yan served as a director in Alibaba Group from 2013 to 2016, responsible for cross border business, digital marketing and corporate development. Prior to Alibaba, Mr. Yan brought 11 years of experiences in the areas of internet/eCommerce operation, business development, sales and marketing. He served as a general manager role in Amazon China from 2010 to 2013 and he also worked at 3M from 2005 to 2010, serving as several roles including sales manager, senior marketing manager, and general manager focusing on growing the company MRO business in China. Mr. Yan graduated from Peking University with a master's degree in Business Administration in 2013. He also received his bachelor's degree in Economics from Beijing University of Science and Technology in 2003.

## B. Compensation

### **Compensation of Directors and Executive Officers**

For the year ended December 31, 2019, we paid an aggregate of approximately RMB6.4 million (US\$0.9 million) to our directors and executive officers. Our PRC subsidiary is required by the PRC laws and regulations to make contributions equal to certain percentages of each employee's salary for his or her retirement benefit, medical insurance benefits, housing funds, unemployment and other statutory benefits. Our PRC subsidiary has contributed retirement and similar benefits to our officers in the year ended December 31, 2019.

### **Share Incentive Plan**

We maintain share incentive plan in order to attract, motivate, retain and reward talent, provide additional incentives to our officers, employees, directors and other eligible persons, and promote the success of our business and the interests of our shareholders.

#### **2016 ESOP Plan**

In 2016, our board of directors approved an equity incentive plan, or the 2016 ESOP Plan, to promote the success of our business and the interests of our shareholders by providing additional incentives and awards to attract, retain and motivate eligible senior executives and key employees and to link the interests of the award recipients with our shareholders.

## Table of Contents

Under the 2016 ESOP Plan, the maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the 2016 ESOP Plan was 7,000,000. Unless otherwise approved by our shareholders, the 2016 ESOP Plan expires ten years after the date of its effectiveness.

As of the date of this annual report, options to purchase 6,924,500 ordinary shares, excluding awards that were forfeited or canceled after the relevant grant dates, have been granted and outstanding under the 2016 ESOP Plan. We incurred share-based compensation expenses upon our initial public offering, the exercisability event, upon which the options were accounted for as a cumulative compensation cost since the service inception date, with the remaining unrecognized compensation cost amortized over the remaining requisite service period. Other than the awards already granted, 75,500 shares are available for grant under the 2016 ESOP Plan as of the date of this annual report.

The following paragraphs summarize the terms of the 2016 ESOP Plan.

*Plan administration.* Our compensation committee acts as the plan administrator.

*Types of awards.* The 2016 ESOP Plan permits the award of options.

*Award agreements.* Each award under the 2016 ESOP Plan will be evidenced by an award agreement between the award recipient and our company.

*Eligibility.* Only our senior executives and key employees are eligible to receive awards or grants under the 2016 ESOP Plan.

*Term of awards.* The term of each award is stated in the relevant award agreement.

*Vesting schedule and other restrictions.* The plan administrator has discretion in determining and making adjustment in the individual vesting schedules and other restrictions applicable to the awards granted under the 2016 ESOP Plan. The vesting schedule is set forth in each award agreement. Each award under the 2016 ESOP Plan will expire, or vest or be repurchased by us not more than ten years after the date of grant. A vested option is only exercisable in the event of change of control or an initial public offering, and if a participant who receives the award terminates service with us for cause or resigns when the cause is present, all vested and unvested options shall be forfeited, shall automatically lapse without any compensation and shall have no further force and effect, unless otherwise determined by the plan administrator or set forth in the award agreement.

*Exercise price.* The plan administrator has discretion in determining the price of awards, subject to a number of limitations, and has discretion in making adjustments in the exercise price of the options.

*Term of 2016 ESOP Plan.* The 2016 ESOP Plan will terminate ten years from its effective date.

*Amendment.* Our board of directors has the authority to amend or terminate the 2016 ESOP Plan.

*Transfer restrictions.* Except as permitted by the plan administrator, all options are not transferable or assignable, other than by will or by the laws of descent and distribution.

The table below sets forth certain information as of the date of this annual report, concerning the outstanding awards we have granted to our directors and executive officers individually under the 2016 ESOP Plan.

| <u>Name</u>                                     | <u>Ordinary Shares<sup>(1)</sup><br/>Underlying<br/>Outstanding<br/>Awards Granted</u> | <u>Price<br/>(US\$/Share)</u> | <u>Date of Grant</u> | <u>Date of<br/>Expiration</u> |
|---|--|-------------------------------|----------------------|-------------------------------|
| Yiding Sun                                      | *  | 1.44                          | April 1, 2019        | October 1, 2029               |
| Jiandong Lu                                     | *  | 1.44                          | April 1, 2019        | October 1, 2029               |
| All directors and executive officers as a group | 339,995  | 1.44                          |                      |                               |

\* The outstanding options to purchase ordinary shares in aggregate held by each of these directors and executive officers represent less than 1% of our total outstanding shares.

(1) Represents options to purchase ordinary shares.

## **2017 ESOP Plan**

In 2017, our board of directors approved a new equity incentive plan, or the 2017 ESOP Plan, which became effective upon completion of our initial public offering, to help attract and retain the best available personnel, provide additional incentives to employees, directors and consultants. Per board approval, the awards are for employees, consultants and members of our board of directors for outstanding performance and promote the success of our business.

The maximum aggregate number of ordinary shares which may be issued pursuant to all awards under the 2017 ESOP Plan is 5,000,000. Unless otherwise extended by the plan administrator, the 2017 ESOP Plan will not exceed ten years after the date of its effectiveness. As of the date of this annual report, options to purchase 3,260,000 ordinary shares, excluding awards that were forfeited or canceled after the relevant grant dates, have been granted and outstanding, and 1,740,000 shares are available for grant under the 2017 ESOP Plan.

The following paragraphs summarize the terms of the 2017 ESOP Plan.

*Plan administration.* Our compensation committee acts as the plan administrator.

*Types of awards.* The 2017 ESOP Plan permits the award of options, restricted shares, restricted share units, dividend equivalents, deferred shares, share payment and share appreciation rights.

*Award agreements.* Each award under the 2017 ESOP Plan is evidenced by an award agreement between the award recipient and our company.

*Eligibility.* Only our employees, consultants and board of directors are eligible to receive awards or grants under the 2017 ESOP Plan.

*Term of awards.* The term of each award is stated in the relevant award agreement.

*Vesting schedule and other restrictions.* The plan administrator has discretion in determining and making adjustments to the individual vesting schedules and other restrictions applicable to the awards granted under the 2017 ESOP Plan. The vesting schedule will be set forth in each award agreement. Each award under the 2017 ESOP Plan will expire, vest or be repurchased by us not more than ten years after the date of grant. The conditions of the exercise of awards will be determined by the plan administrator or set forth in the award agreement.

*Exercise price.* The plan administrator has discretion in determining the price of awards, subject to a number of limitations, and has discretion in making adjustments in the exercise price of the options.

*Term of 2017 ESOP Plan.* The 2017 ESOP Plan will terminate on the tenth anniversary of its effective date.

*Amendment.* The plan administrator has the authority to terminate, amend or modify the 2017 ESOP Plan.

*Transfer restrictions.* Except as permitted by the plan administrator, all awards are not transferable or assignable, other than by will or by the laws of descent and distribution.

## Table of Contents

The table below sets forth certain information as of the date of this annual report, concerning the outstanding awards we have granted to our directors and executive officers individually under the 2017 ESOP Plan.

| <u>Name</u>                                     | <u>Ordinary Shares(1)<br/>Underlying<br/>Outstanding<br/>Awards Granted</u> | <u>Price<br/>(US\$/Share)</u> | <u>Date of Grant</u> | <u>Date of<br/>Expiration</u> |
|---|---|-------------------------------|----------------------|-------------------------------|
| Yiding Sun                                      | *   | 4.25                          | April 1, 2019        | April 1, 2029                 |
| Jiandong Lu                                     | *   | 4.25                          | April 1, 2019        | April 1, 2029                 |
| All directors and executive officers as a group | 1,900,000   | 4.25                          | April 1, 2019        | April 1, 2029                 |

\* The outstanding options to purchase ordinary shares in aggregate held by each of these directors and executive officers represent less than 1% of our total outstanding shares.

(1) Represents options to purchase ordinary shares.

### C. Board Practice

Our board of directors consists of nine directors. A director is not required to hold any shares in our company to qualify to serve as a director. A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with our company is required to declare the nature of his interest at a meeting of our directors. A general notice given to the directors by any director to the effect that he is a member, shareholder, director, partner, officer or employee of any specified company or firm and is to be regarded as interested in any contract or transaction with that company or firm shall be deemed a sufficient declaration of interest for the purposes of voting on a resolution in respect to a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any particular transaction. A director may vote in respect of any contract or proposed contract or arrangement notwithstanding that he may be interested therein and if he does so his vote shall be counted and he may be counted in the quorum at any meeting of the directors at which any such contract or proposed contract or arrangement is considered. Our board of directors may exercise all of the powers of our company to borrow money, to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures, debenture stock or other securities whenever money is borrowed or as security for any debt, liability or obligation of our company or of any third-party. None of our directors has a service contract with us that provides for benefits upon termination of service.

### **Committees of the Board of Directors**

Prior to the completion of our initial public offering, we established an audit committee, a compensation committee and a corporate governance and nominating committee under the board of directors. We intend to adopt a charter for each of the three committees prior to the completion of our initial public offering. Each committee's members and functions are described below.

**Audit Committee.** Our audit committee consists of Weili Hong, Jun Yan and Yong Chen, and is chaired by Weili Hong. Each of them satisfies the "independence" requirements of Rule 5605(a)(2) of the Listing Rules of the NASDAQ Stock Market and meet the independence standards under Rule 10A-3 under the Exchange Act. Our board of directors has also determined that Weili Hong qualifies as an "audit committee financial expert" within the meaning of the SEC rules and possesses financial sophistication within the meaning of the Listing Rules of the NASDAQ Stock Market. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- selecting our independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm;
- reviewing with our independent registered public accounting firm any audit problems or difficulties and management's response and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K;
- discussing the annual audited financial statements with management and our independent registered public accounting firm;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- meeting separately and periodically with the management and our internal auditor and our independent registered public accounting firm;

## Table of Contents

- reporting regularly to the full board of directors;
- reviewing the adequacy and effectiveness of our accounting and internal control policies and procedures and any steps taken to monitor and control major financial risk exposure; and
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time.

**Compensation Committee.** Our compensation committee consists of Zhongjue Chen, Jun Yan and Yong Chen, and is chaired by Zhongjue Chen. Jun Yan and Yong Chen satisfy the “independence” requirements of Rule 5605(a)(2) of the Listing Rules of the NASDAQ Stock Market. Our compensation committee assists the board in reviewing and approving the compensation structure, including all forms of compensation, relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting during which her compensation is deliberated upon. The compensation committee is responsible for, among other things:

- reviewing and approving to the board with respect to the total compensation package for our most senior executive officers;
- approving and overseeing the total compensation package for our executives other than the most senior executive officers;
- reviewing and recommending to the board with respect to the compensation of our directors;
- reviewing periodically and approving any long-term incentive compensation or equity plans;
- selecting compensation consultants, legal counsel or other advisors after taking into consideration all factors relevant to that person’s independence from management; and
- programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

**Corporate Governance and Nominating Committee.** Our corporate governance and nominating committee consists of Jonathan Jia Zhu, Haiping Yan and Weili Hong, and is chaired by Jonathan Jia Zhu. Haiping Yan and Weili Hong satisfy the “independence” requirements of Rule 5605(a)(2) of the Listing Rules of the NASDAQ Stock Market. The corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board of directors and its committees. The corporate governance and nominating committee is responsible for, among other things:

- identifying and recommending nominees for election or re-election to our board of directors or for appointment to fill any vacancy;
- reviewing annually with our board of directors its current composition in light of the characteristics of independence, age, skills, experience and availability of service to us;
- identifying and recommending to our board the directors to serve as members of committees;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to our board of directors on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

## **Duties of Directors**

Under Cayman Islands law, our directors owe fiduciary duties to our company, including a duty of loyalty, a duty to act honestly, and a duty to act in what they consider in good faith to be in our best interests. Our directors must also exercise their powers only for a proper purpose. Our directors also owe to our company a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time, and the class rights vested thereunder in the holders of the shares. Our company has the right to seek damages if a duty owed by our directors is breached. In limited exceptional circumstances, a shareholder may have the right to seek damages in our name if a duty owed by our directors is breached.

Our board of directors has all the powers necessary for managing, and for directing and supervising, our business affairs. The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.

## **Terms of Directors and Executive Officers**

Each of our directors shall hold office until the expiration of his or her term and his or her successor shall have been elected and qualified, or until his or her office is otherwise vacated. All of our executive officers are appointed by and serve at the discretion of our board of directors. Our directors may be removed from office by an ordinary resolution of shareholders. In addition, a director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any arrangement or composition with his creditors; (ii) dies or is found to be or becomes of unsound mind; (iii) resigns by notice in writing to our company; (iv) without special leave of absence from our board of directors, is absent from three consecutive meetings of the board and the board resolves that his office be vacated; (v) is prohibited by law from being a director; or (vi) is removed from office pursuant to any other provisions of our memorandum and articles of association. The compensation of our directors is determined by the board of directors. There is no mandatory retirement age for directors.

## **Employment Agreements and Indemnification Agreements**

We have standardized employment agreements with our executive officers. Each of our executive officers is employed for a continuous term, or a specified time period which will be automatically extended, unless either we or the executive officer gives prior notice to terminate such employment. We may terminate the employment for cause, at any time, without notice or remuneration, for certain acts of the executive officer, including but not limited to the commitments of any serious or persistent breach or non-observance of the terms and conditions of the employment, conviction of a criminal offense other than one which in the opinion of the board does not affect the executive's position, willful, disobedience of a lawful and reasonable order, misconducts being inconsistent with the due and faithful discharge of the executive officer's material duties, fraud or dishonesty, or habitual neglect of his or her duties. An executive officer may terminate his or her employment at any time with a three- to six-month prior written notice.

Each executive officer is expected to hold, both during and after the employment agreement expires or is earlier terminated, in strict confidence and not to use or disclose to any person, corporation or other entity without written consent, any confidential information or trade secrets. Each executive officer is expected to disclose in confidence to us all inventions, intellectual and industry property rights and trade secrets which they made, discover, conceive, develop or reduce to practice during the executive officer's employment with us and to assign to our company all his or her all associated titles, interests, patents, patent rights, copyrights, trade secret rights, trademarks, trademark rights, mask work rights and other intellectual property and rights anywhere in the world which the executive officer may solely or jointly conceive, invent, discover, reduce to practice, create, drive, develop or make, or cause to be conceived, invented, discovered, reduced to practice, created, driven, developed or made, during the period of the executive officer's employment with us that are either related to our business, actual or demonstrably anticipated research or development or any of our products or services being developed, manufactured, marketed, sold, or are related to the scope of the employment or make use of our resources. In addition, all executive officers have agreed to be bound by non-competition and non-solicitation restrictions set forth in their agreements. Each executive officer has agreed to devote all his or her working time and attention to our business and use best efforts to develop our business and interests. Moreover, each executive officer has agreed not to, for a certain period following termination of his or her employment or expiration of the employment agreement: (i) carry on or be engaged, concerned or interested directly or indirectly whether as shareholder, director, employee, partner, agent or otherwise carry on any business in direct competition with us, (ii) solicit or entice away any of our customer, client, representative or agent, or (iii) employ, solicit or entice away or attempt to employ, solicit or entice away any of our officers, managers, consultants or employees.

## [Table of Contents](#)

We have entered into indemnification agreements with our directors and executive officers, pursuant to which we will agree to indemnify our directors and executive officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or an executive officer.

### D. Employees

We had 2,754, 3,512 and 4,014 employees as of December 31, 2017, 2018 and 2019, respectively. The majority of our employees are full-time. We had the following number of employees by function as of the dates indicated below:

|                     | As of December 31, |              |              |
|---------------------|--------------------|--------------|--------------|
|                     | 2017               | 2018         | 2019         |
| Teachers            | 1,543              | 1,911        | 2,315        |
| Sales and marketing | 565                | 668          | 723          |
| Administration      | 646                | 933          | 976          |
| Total               | <u>2,754</u>       | <u>3,512</u> | <u>4,014</u> |

We enter into employment contracts with our full-time employees, which contain confidentiality provisions.

As required by regulations in China, we participate in various employee social security plans that are administered by municipal and provincial governments for our PRC-based full-time employees, including housing, pension, medical insurance, unemployment insurance, injury insurance and maternity insurance. We are required under PRC law to make contributions to employee benefit plans for our PRC-based full-time employees at specified percentages of the total salaries, bonuses and certain allowance of our employees, up to a maximum amount specified by the relevant local governments in China from time to time.

None of our employees are represented by collective bargaining agreement. We believe that we maintain good relationships with our employees. We have not experienced any significant labor disputes.

### E. Share Ownership

The following table sets forth information concerning the beneficial ownership of our ordinary shares as of the date of this annual report:

- each of our directors and executive officers;
- each person known to us to beneficially own more than 5% of our ordinary shares; and
- each selling shareholder.

The calculations in the table below are based on 112,756,322 ordinary shares issued and outstanding as of March 31, 2020.

## Table of Contents

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we have included shares that the person has the right to acquire within 60 days of our initial public offering, including through the exercise of any option, warrant, or other right or the conversion of any other security. These shares, however, are not included in the computation of the percentage ownership of any other person.

|  | <u>Ordinary Shares<br/>Beneficially Owned</u> | <u>Percentage of Total<br/>Voting Power held (%†)</u> |
|--|---|---|
| <b>Directors and Executive Officers:(1)</b>      |   |   |
| Yiding Sun(2)                                    | 1,430,000                                     | 1.3%  |
| Jiandong Lu                                      | *   | *   |
| All directors and executive officers as a group  | 1,665,000                                     | 1.5%  |
| <b>Principal Shareholders:</b>                   |   |   |
| Bain Capital Rise Education IV Cayman Limited(3) | 70,800,808                                    | 62.8%   |

\* Less than 1% of our total outstanding shares.

† For each person and group included in this column, percentage ownership is calculated by dividing the number of ordinary shares beneficially owned by such person or group, including shares that such person or group has the right to acquire within 60 days after the date of this annual report, by the sum of (i) 112,756,322 which is the total number of ordinary shares outstanding as of March 31, 2020, and (ii) the number of ordinary shares that such person or group has the right to acquire beneficial ownership within 60 days after the date of this annual report.

(1) The business address of Mr. Zhongjue Chen and Mr. Jonathan Jia Zhu is Suite 2501, Level 25, One Pacific Place, 88 Queensway, Hong Kong, and the business address of Ms. Lihong Wang and our other directors and executive officers is c/o Room 101, Jia He Guo Xin Mansion, No. 15 Baiqiao Street, Guangqumennei, Dongcheng District, Beijing 100062, People's Republic of China.

(2) Mr. Yiding Sun is the Vice Chairman of our board of directors, and served as our chief executive officer till January 2020.

(3) Bain Capital Rise Education IV Cayman Limited, or Bain Capital Entity, is owned by Bain Capital Asia Integral Investors, L.P. Bain Capital Investors, LLC, or BCI, is the general partner of Bain Capital Asia Integral Investors, L.P. The governance, investment strategy and decision-making process with respect to investments held by the Bain Capital Entity is directed by the Global Private Equity Board of BCI. As a result of the relationships described above, BCI may be deemed to share beneficial ownership of the shares held by the Bain Capital Entity. The Bain Capital Entity has an address c/o Bain Capital Private Equity, LP, 200 Clarendon Street, Boston, Massachusetts 02116.

We are currently controlled by Bain Capital IV Cayman Limited, or Bain Capital. As of December 31, 2019, Bain Capital indirectly beneficially owns approximately 59.8% of the voting power of our outstanding shares.

To our knowledge, as of the date of this annual report, 39,886,011 of our ordinary shares, representing approximately 35.4% of our total outstanding ordinary shares, were held by record holders in the United States, including 39,818,810 ordinary shares held by JP Morgan Chase Bank, N.A. as the depository of our ADS program and 67,201 ordinary shares held by an individual shareholder. None of our existing shareholders has different voting rights from other shareholders. None of our existing shareholders has informed us that it is affiliated with a registered broker-dealer or is in the business of underwriting securities. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. Major Shareholders**

See "Item 6. Directors, Senior Management and Employees—E. Share Ownership."

## [Table of Contents](#)

### B. [Related Party Transactions](#)

#### **Contractual Arrangements with Our VIE, Its Shareholders and Us**

See “Item 4. Information of the Company—C. Organizational Structure—Contractual Arrangements among Our VIE, Its Schools, Its Shareholders and Us.”

#### **Share Incentive Plan**

See “Item 6. Directors, Senior Management and Employees—B. Compensation—Share Incentive Plan.”

#### **Employment Agreements and Indemnification Agreements**

See “Item 6. Directors, Senior Management and Employees—C. Board Practice—Employment Agreements and Indemnification Agreements.”

#### **Other Transactions with Related Parties**

In 2013, we entered into a consulting service agreement with Bain Capital Private Equity Advisors (China) Ltd., or Bain Capital, an affiliate of our principal shareholder, pursuant to which Bain Capital provides us with business consulting services. We paid RMB6.2 million to Bain Capital during each of the years ended December 31, 2015, 2016 and RMB4.7 million during the year of 2017. Pursuant to its terms, the consulting service agreement was terminated upon the completion of our initial public offering, at which time we had paid Bain Capital a lump sum amount of RMB33.9 million (US\$5.1 million).

In each year of 2016 through 2019, we entered into a series of entrustment loan agreements with Lionbridge Limited, an affiliate of our principal shareholder, pursuant to which we granted loans of RMB280.0 million, RMB150.0 million, RMB150.0 million and RMB100.0 million (US\$14.4 million) to Lionbridge Limited during the years ended December 31, 2016, 2017, 2018 and 2019, respectively. Loans granted during the years ended December 31, 2016, 2017, 2018 and 2019 have been fully repaid.

In 2015, we entered into a product development agreement with Beijing Mai Rui Technology Co., Ltd., or Beijing Mai Rui, owned by a former director of us, pursuant to which we paid RMB0.7 million, RMB0.3 million and nil to Beijing Mai Rui during the years ended December 31, 2015, 2016 and 2017, respectively. In September 2017, we entered into an agreement to purchase the business and assets of The Edge Learning Centers Limited, a company in which a managing director of Bain Capital is a director and minority shareholder. The Edge Learning Centers Limited is a leading Hong Kong-based admissions consulting company specializing in overseas boarding school and college placement. Total consideration under the agreement is approximately HK\$33 million (US\$4.2 million). The acquisition was completed during the fourth quarter of 2017.

### C. [Interest of Experts and Counsel](#)

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### A. [Consolidated Statement and Other Financial Information](#)

We have appended consolidated financial statements filed as part of this annual report.

#### **Legal and Administrative Proceedings**

From time to time, we are subject to legal proceedings, investigations and claims incidental to the conduct of our business. We are not a party to, nor are we aware of, any legal proceeding, investigation or claim which, in the opinion of our management, is likely to have an adverse material effect on our business, financial condition or results of operations. We may periodically be subject to legal proceedings, investigations and claims relating to our business. We may also initiate legal proceedings to protect our rights and interests.

## **Dividend Policy**

We do not have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

In September 2017, we paid cash dividends totaling US\$87.0 million to our shareholders and we did not make any dividend payment to our shareholders in 2018. Our board of directors has discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant. If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depository, as the registered holder of such ordinary shares, and the depository then will pay such amounts to the ADS holders who will receive payment to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder.

We are a holding company incorporated in the Cayman Islands. For our cash requirements, including any payment of dividends to our shareholders, we rely on dividends distributed by our subsidiaries in Hong Kong, Cayman Islands and the PRC. PRC regulations may restrict the ability of our PRC subsidiary to pay dividends to us. For example, dividend distributions from our PRC subsidiary to us are subject to PRC taxes, including withholding tax. In addition, regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China. See “Item 3. Key Information—D. Risk Factors—Risks Related to our Corporate Structure—We rely on dividends, fees and other distributions paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could hinder our ability to conduct our business.”

### **B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details**

Our ADSs have been listed on the NASDAQ Global Market since October 20, 2017 and traded under the symbol “REDU.” Each ADS represents two ordinary shares.

### **B. Plan of Distribution**

Not applicable.

### **C. Markets**

Our ADSs have been listed on the NASDAQ Global Market since October 20, 2017 under the symbol “REDU.”

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

## Table of Contents

F. Expenses of the Issue

Not applicable.

### **ITEM 10. ADDITIONAL INFORMATION**

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We incorporate by reference into this annual report our Amended and Restated Memorandum and Articles of Association, the form of which was filed as Exhibit 3.2 to our registration statement on Form F-1 (File Number: 333-220587) filed with the Securities and Exchange Commission on September 22, 2017. Our board of directors adopted our Amended and Restated Memorandum and Articles of Association by a special resolution on September 22, 2017, which became effective immediately prior to completion of our initial public offering of ADSs representing our ordinary shares.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in this annual report.

D. Exchange Controls

The Cayman Islands currently has no exchange control regulations or currency restrictions. See “Item 4. Information of the Company—B. Business Overview—Regulations Related to Foreign Exchange.”

E. Taxation

The following summary of Cayman Islands, PRC and U.S. federal income tax consequences of an investment in the ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in the ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws, or tax laws of jurisdictions other than the Cayman Islands, the PRC and the United States. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Maples and Calder (Hong Kong) LLP, our counsel as to Cayman Islands law.

#### **Cayman Islands Tax Considerations**

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties which are applicable to any payments made by or to our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

Payments of dividends and capital in respect of our ordinary shares or ADSs will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of a dividend or capital to any holder of our ordinary shares or ADSs, nor will gains derived from the disposal of our ordinary shares or ADSs be subject to Cayman Islands income or corporation tax.

No stamp duty is payable in respect of the issue of our ordinary shares or on an instrument of transfer in respect of our ordinary shares except on instruments executed in, or brought within, the jurisdiction of the Cayman Islands.

## **People's Republic of China Tax Considerations**

Under the EIT Law, which was promulgated on March 16, 2007 and amended on February 24, 2017 and December 29, 2018, an enterprise established outside the PRC with “de facto management bodies” within the PRC is considered a “resident enterprise” for PRC enterprise income tax purposes and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. In 2009, the SAT issued SAT Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC controlled enterprise that is incorporated offshore is located in China. Further to SAT Circular 82, in 2011, the SAT issued SAT Bulletin 45 to provide more guidance on the implementation of SAT Circular 82.

According to SAT Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be considered a PRC resident enterprise by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its worldwide income only if all of the following conditions are met: (a) the senior management and core management departments in charge of its daily operations function have their presence mainly in the PRC; (b) its financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (c) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (d) more than half of the enterprise’s directors or senior management with voting rights habitually reside in the PRC. Although SAT Circular 82 and SAT Bulletin 45 apply to offshore incorporated enterprises controlled by PRC enterprises or PRC enterprise groups, the determination criteria set forth therein may reflect the SAT’s general position on how the term “de facto management body” could be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

We believe that we do not meet all of the criteria described above. We believe that neither we nor our subsidiaries outside of China are PRC tax resident enterprises, because neither we nor they are controlled by a PRC enterprise or PRC enterprise group, and because our records and their records (including the resolutions of the respective boards of directors and the resolutions of shareholders) are maintained outside the PRC. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities and uncertainties remain with respect to the interpretation of the term “de facto management body” when applied to our offshore entities, we may be considered a resident enterprise and therefore may be subject to PRC enterprise income tax at a rate of 25% on our worldwide income. In addition, if the PRC tax authorities determine that we are a PRC resident enterprise for PRC enterprise income tax purposes, dividends we pay to non-PRC holders may be subject to PRC withholding tax, and gains realized on the sale or other disposition of ADSs or ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals, if such dividends or gains are deemed to be from PRC sources. These rates may be reduced by an applicable tax treaty. Any such tax may reduce the returns on your investment in the ADSs.

## **United States Federal Income Tax Considerations**

The following summary describes the material United States federal income tax consequences of the ownership of our ordinary shares and ADSs as of the date hereof. The discussion set forth below is applicable only to United States Holders and deals only with ordinary shares and ADSs held as capital assets (generally, property held for investment) under the U.S. Internal Revenue Code of 1986, as amended, or the Code. As used herein, the term “United States Holder” means a beneficial owner of an ordinary share or ADS that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons has or have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

If a partnership holds our ordinary shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partner and partnership. If you are a partnership or a partner of a partnership holding our ordinary shares or ADSs, you should consult your tax advisors.

## [Table of Contents](#)

This discussion is based upon existing U.S. federal income tax law, which is subject to differing interpretations or change, possibly with retroactive effect. This discussion is based, in part, upon representations made by the depositary to us and assumes that the deposit agreement, and all other related agreements, have been and will be performed in accordance with their terms. No ruling has been sought from the Internal Revenue Service with respect to any U.S. federal income tax consequences described below, and there can be no assurance that the Internal Revenue Service or a court will not take a contrary position. Additionally, this discussion does not address the U.S. federal estate, gift, Medicare and alternative minimum tax considerations or any state, local and non-U.S. tax considerations, relating to the ownership or disposition of our ADSs or ordinary shares and does not address all aspects of U.S. federal income taxation that may be important to particular investors in light of their individual circumstances or to persons in special tax situations such as:

- a dealer in securities or currencies;
- a bank or other financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our ordinary shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person who acquires his ADSs or ordinary shares pursuant to an employee share option or otherwise as compensation;
- a person who owns or is deemed to own ADSs or shares representing 10% or more of our vote or value;
- a U.S. expatriate;
- an S corporation, partnership or other pass-through entity for United States federal income tax purposes;
- a person subject to the base erosion and anti-abuse tax;
- a person required to accelerate recognition of any item of gross income with respect to our ADSs or shares as a result of such income being recognized on an applicable financial statement; or
- a person whose “functional currency” is not the United States dollar.

If you are considering the purchase, ownership or disposition of our ordinary shares or ADSs, you should consult your own tax advisors concerning the United States federal income tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

### **ADSs**

If you hold ADSs, for United States federal income tax purposes you generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

### ***Taxation of Dividends***

Subject to the discussion under “—Passive Foreign Investment Company Rules” below, the gross amount of distributions on the ADSs or ordinary shares (including any amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution we pay generally will be treated as a dividend for U.S. federal income tax purposes. Such income (including withheld taxes) will be includible in your gross income as ordinary income on the day actually or constructively received by you, in the case of the ordinary shares, or by the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code. The following discussion assumes that all dividends will be paid in U.S. Dollars.

A non-corporate United States Holder will be subject to tax at the preferential tax rate applicable to “qualified dividend income,” provided that certain conditions are satisfied, including that (1) our ordinary shares (or ADSs representing such ordinary shares) are readily tradeable on an established securities market in the United States or, in the event that we are deemed to be a PRC tax resident enterprise under PRC tax law, we are eligible for the benefits of the United States-PRC income tax treaty (the “Treaty”), (2) we are neither a PFIC nor treated as such with respect to a United States Holder (as discussed below) for the taxable year in which the dividend was paid and the preceding taxable year, and (3) certain holding period requirements are met. We expect our ADSs (but not our ordinary shares) will be readily tradeable on an established securities market in the United States. There can be no assurance, however, that our ADSs will be considered readily tradable on an established securities market in subsequent years.

In the event that we are deemed to be a PRC tax resident enterprise under PRC tax law, you may be subject to PRC withholding taxes on dividends paid on our ADSs or ordinary shares, as described under “—People’s Republic of China Tax Considerations.” If we are deemed to be a PRC tax resident enterprise, we may, however, be eligible for the benefits of the Treaty. If we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such shares are represented by our ADSs, may be eligible for the reduced rates of taxation applicable to qualified dividend income, as discussed above.

Dividends will generally be treated as income from foreign sources for U.S. foreign tax credit purposes and will generally constitute passive category income. Depending on the United States Holder’s individual facts and circumstances, a United States Holder may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any foreign withholding taxes imposed on dividends received on our ADSs or ordinary shares. The rules governing the foreign tax credit are complex. Accordingly, United States Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. A United States Holder who does not elect to claim a foreign tax credit for foreign tax withheld may instead claim a deduction, for U.S. federal income tax purposes, in respect of such withholding, but only for a year in which such holder elects to do so for all creditable foreign income taxes.

### ***Sale or Other Disposition***

Subject to the discussion below under “—Passive Foreign Investment Company Rules,” a United States Holder generally will recognize capital gain or loss upon the sale or other disposition of ADSs or ordinary shares in an amount equal to the difference between the amount realized upon the disposition and the holder’s adjusted tax basis in such ADSs or ordinary shares. Any capital gain or loss will be long-term if the ADSs or ordinary shares have been held for more than one year and generally will be U.S.-source gain or loss for U.S. foreign tax credit purposes. The deductibility of a capital loss may be subject to limitations. In the event that gain from the disposition of the ADSs or ordinary shares is subject to tax in the PRC, such gain may be treated as PRC-source gain under the Treaty. United States Holders are urged to consult their tax advisors regarding the tax consequences if a foreign tax is imposed on a disposition of our ADSs or ordinary shares, including the availability of the foreign tax credit under their particular circumstances.

### ***Passive Foreign Investment Company Rules***

Based on the composition of our income and assets, and valuation of our assets, and the market value of our ADSs, we do not believe we were a PFIC for the taxable year ending December 31, 2019, although there can be no assurance in this regard.

## [Table of Contents](#)

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income; or
- at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). Additionally, for this purpose, cash is categorized as a passive asset and a company's goodwill associated with active business activity is taken into account as a non-passive asset. If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

Although the law in this regard is unclear, we treat our consolidated affiliates as being owned by us for United States federal income tax purposes, not only because we exercise effective control over the operation of such entities but also because we are entitled to substantially all of their economic benefits, and, as a result, we consolidate their results of operation in our financial statements. If it were determined, however, that we are not the owner of any of our consolidated affiliates for United States federal income tax purposes, the composition of our income and assets would change and we may be a PFIC for the taxable year ending December 31, 2019, the current or any subsequent taxable year.

While we do not believe we were a PFIC for the taxable year ending December 31, 2019, the determination of whether we are a PFIC must be determined on an annual basis. Accordingly, there can be no assurance that we will not be a PFIC in any future taxable years. The determination of whether we are or will become a PFIC will depend on the composition of our income (which may differ from our historical results and current projections) and the assets and value of our assets from time to time, including, in particular, the value of our goodwill and other unbooked intangibles (which may depend on the market value of our ADSs from time-to-time and may be volatile). Among other matters, if our market capitalization declines, we may be a PFIC for the current or future taxable years. It is also possible that the Internal Revenue Service may challenge our classification or valuation of our goodwill and other unbooked intangibles, which may result in our company being, or becoming, a PFIC for any prior taxable year, the current taxable year or future taxable years. The determination of whether we will be or become a PFIC may also depend, in part on how, and how quickly, we use our liquid assets, including cash. Accordingly, we cannot assure you that we will not be a PFIC for the current taxable year or any future taxable year. If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ADSs or ordinary shares, you will be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including, in some circumstances, a pledge, of ADSs or ordinary shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

If we were a PFIC for any taxable year during which you hold our ADSs or ordinary shares and any of our non-United States subsidiaries was also a PFIC, you would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

## [Table of Contents](#)

As an alternative to the foregoing rules, a United States Holder of “marketable stock” in a PFIC may make a mark-to-market election with respect to such stock, provided that such stock is “regularly traded.” For those purposes, our ADSs, but not our ordinary shares, will be treated as marketable stock upon their listing on the Nasdaq. However, no assurances may be given that the ADSs will be regularly traded at all times. If a United States Holder makes this election, the holder will generally (i) include as ordinary income for each taxable year that we are a PFIC the excess, if any, of the fair market value of the ADSs held at the end of the taxable year over the adjusted tax basis of such ADSs held at the end of the taxable year and (ii) deduct as an ordinary loss the excess, if any of the adjusted tax basis of the ADSs over the fair market value of such ADSs held at the end of the taxable year, but such deduction will only be allowed to the extent of the amount previously included in income as a result of the mark-to-market election. Such United States Holders’ adjusted tax basis in the ADSs will be increased by the amount of any such income inclusion and decreased by the amount of any such deductions under the mark-to-market rules. If a United States Holder makes a mark-to-market election in respect of a corporation classified as a PFIC and such corporation ceases to be classified as a PFIC, the holder will not be required to take into account the gain or loss described above during any period that such corporation is not classified as a PFIC. If a United States Holder makes a mark-to-market election, any gain such United States Holder recognizes upon the sale or other disposition of our ADSs in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as ordinary loss, but such loss will only be treated as ordinary loss to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

Because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a United States Holder may continue to be subject to the PFIC rules with respect to such United States Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

We do not intend to provide the information United States Holders would need to make a qualified electing fund election for the current taxable year, and as such the qualified electing fund election has not been and will not be available to United States Holders.

You will generally be required to file Internal Revenue Service Form 8621 if you hold our ADSs or ordinary shares in any year in which we are classified as a PFIC. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ADSs or ordinary shares if we are considered a PFIC in any taxable year.

### ***Information Reporting and Backup Withholding***

In general, information reporting will apply to dividends in respect of our ADSs or ordinary shares and the proceeds from the sale, exchange or redemption of our ADSs or ordinary shares that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient. Backup withholding may also apply to such payments if you fail to provide a taxpayer identification number and make other required certifications, unless you otherwise establish an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability provided the required information is furnished to the Internal Revenue Service in a timely manner.

You are urged to consult your own tax advisors regarding the application of the information reporting and backup withholding rules.

### ***Information with respect to foreign financial assets***

Certain United States Holders are required to report information relating to ADSs or ordinary shares, subject to certain exceptions (including an exception for ADSs or ordinary shares held in accounts maintained by certain financial institutions). You are urged to consult your own tax advisors regarding information reporting requirements relating to your ownership of the ADSs or ordinary shares.

## Table of Contents

### F. Dividends and Paying Agents

Not applicable.

### G. Statement by Experts

Not applicable.

### H. Documents on Display

We previously filed with the SEC registration statement on Form F-1 (File Number 333-220587), as amended, including prospectus contained therein, to register additional securities that become effective immediately upon filing, to register our ordinary shares in relation to our initial public offering. We also filed with the SEC registration statement on Form F-1 (File Number: 333-225414), as amended, including the prospectus contained therein, to register our ordinary shares in relation to a follow-on public offering. We also filed with the SEC related registration statement on Form F-6 (File Number: 333-220873) to register the ADSs and registration statement on Form S-8 (File Number: 333-222775) to register our securities to be issued under our 2017 Plan.

We are subject to the periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year. Copies of reports and other information, when so filed with the SEC, can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules of the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will furnish JPMorgan Chase Bank, N.A., the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

### I. Subsidiary Information

For a list of our subsidiaries, see Exhibit 8.1 filed with this annual report.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Foreign Exchange Risk***

Foreign currency risk arises from future commercial transactions and recognized assets and liabilities. A significant portion of our revenue-generating transactions and expense-related transactions are denominated in Renminbi, which is the functional currency of our subsidiaries, VIE and its subsidiaries in China. Therefore, we have limited exposure to foreign exchange risk for operational activity. However, we have a long term outstanding loan denominated in U.S. Dollars and we do not hedge against currency risk for the repayment of this loan.

## [Table of Contents](#)

The change in value of the Renminbi against the U.S. Dollar and other currencies is affected by various factors such as changes in political and economic conditions in the PRC. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. Dollar, and the Renminbi appreciated more than 20% against the U.S. Dollar over the following three years. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. Dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. Dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. Dollar in the future.

To the extent that we need to convert U.S. Dollars into Renminbi for our operations, appreciation of Renminbi against the U.S. Dollar would reduce the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. Dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, servicing our outstanding debt, or for other business purposes, appreciation of the U.S. Dollar against the Renminbi would reduce the U.S. Dollar amounts available to us.

As of December 31, 2019, we had Renminbi-denominated cash, cash equivalents and restricted cash of RMB970.9 million (US\$139.5 million). A 10% depreciation of the Renminbi against the U.S. Dollar based on the foreign exchange rate on December 31, 2019 would result in a decrease of US\$14.0 million in cash, cash equivalents and restricted cash.

### **Credit Risk**

We are exposed to credit risk from our financial assets, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. Our objective is to seek continual revenue growth while minimizing losses incurred due to increased credit risk exposure. Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and restricted cash. As of December 31, 2019, substantially all of our cash and cash equivalents and restricted cash were deposited with financial institutions, which we believe are of high credit quality and continually monitoring the credit worthiness of these financial institutions.

### **Interest Rate Risk**

We are exposed to interest rate risk related to our outstanding long-term loan. The interest rate of the long-term loan was mainly based on the three-month London Interbank Offered Rate and a pre-determined margin. A hypothetical 1% increase or decrease in annual interest rates would increase or decrease interest expense by approximately RMB5.2 million (US\$0.7 million) per year based on our debt level as of December 31, 2019.

Our exposure to interest rate risk also relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in interest rates. However, our future interest income may fall shorter of expectations due to changes in market interest rates.

### **Inflation Risk**

Our revenues were generated in China in 2017, 2018 and 2019. Inflation did not have a material impact on our results of operations. According to the National Bureau of Statistics of China, inflation as measured by the consumer price index in China was 1.6%, 2.1% and 2.9% in 2017, 2018 and 2019, respectively. Although we have not been materially affected by inflation since our inception, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

### **A. Debt Securities**

Not applicable.

### **B. Warrants and Rights**

Not applicable.

## Table of Contents

### C. Other Securities

Not applicable.

### D. American Depositary Shares

#### **Fees and Charges Our ADS Holders May Have to Pay**

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities or whose ADRs are cancelled or reduced for any other reason, \$5.00 for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be. The depositary may sell (by public or private sale) sufficient securities and property received in respect of a share distribution, rights and/or other distribution prior to such deposit to pay such charge.

The following additional charges shall be incurred by the ADR holders, by any party depositing or withdrawing shares or by any party surrendering ADSs and/or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock regarding the ADSs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of U.S.\$1.50 per ADR or ADRs for transfers of certificated or direct registration ADRs;
- a fee of up to U.S.\$0.05 per ADS for any cash distribution made pursuant to the deposit agreement;
- an aggregate fee of up to U.S.\$0.05 per ADS per calendar year (or portion thereof) for services performed by the depositary in administering the ADRs (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADRs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- a fee for the reimbursement of such fees, charges and expenses as are incurred by the depositary and/or any of its agents (including, without limitation, the custodian and expenses incurred on behalf of holders in connection with compliance with foreign exchange control regulations or any law or regulation relating to foreign investment) in connection with the servicing of the shares or other deposited securities, the sale of securities (including, without limitation, deposited securities), the delivery of deposited securities or otherwise in connection with the depositary's or its custodian's compliance with applicable law, rule or regulation (which fees and charges shall be assessed on a proportionate basis against holders as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities (or the sale of securities in connection with a distribution), such fee being in an amount equal to the \$0.05 per ADS issuance fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities or the net cash proceeds from the sale thereof are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request in connection with the deposit or delivery of shares, ADRs or deposited securities;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- in connection with the conversion of foreign currency into U.S. dollars, JPMorgan shall deduct out of such foreign currency the fees, expenses and other charges charged by it and/or its agent (which may be a division, branch or affiliate) so appointed in connection with such conversion; and
- fees of any division, branch or affiliate of the depositary utilized by the depositary to direct, manage and/or execute any public and/or private sale of securities under the deposit agreement.

JPMorgan and/or its agent may act as principal for such conversion of foreign currency. For further details see <https://www.adr.com>.

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The charges described above may be amended from time to time by agreement between us and the depositary.

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## [Table of Contents](#)

The depositary may make available to us a set amount or a portion of the depositary fees charged in respect of the ADR program or otherwise upon such terms and conditions as we and the depositary may agree from time to time. The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary will generally set off the amounts owing from distributions made to holders of ADSs. If, however, no distribution exists and payment owing is not timely received by the depositary, the depositary may refuse to provide any further services to holders that have not paid those fees and expenses owing until such fees and expenses have been paid. At the discretion of the depositary, all fees and charges owing under the deposit agreement are due in advance and/or when declared owing by the depositary.

The fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of the increase in any such fees and charges.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

#### A.—D. Material Modifications to the Rights of Security Holders

See “Item 10. Additional Information” for a description of the rights of shareholders, which remain unchanged.

#### E. Use of Proceeds

The following “Use of Proceeds” information relates to the registration statement on Form F-1 (File No. 333-220587), as amended, including the prospectus contained therein, which registered 22,000,000 ordinary shares representing by ADSs and was declared effective by the SEC on October 19, 2017, for our initial public offering, which closed in October 2017, and the underwriters’ exercise of their option to purchase from us an additional 1,650,000 ADSs representing 3,300,000 ordinary shares, or the optional offering, which closed in October 2017, at an initial offering price of US\$14.50 per ADS. Morgan Stanley & Co. International plc, Credit Suisse Securities (USA) L.L.C, UBS Securities LLC and HSBC Securities (USA) Inc. were the representatives of the underwriters. We received an aggregated net proceeds of approximately US\$57.9 million from our initial public offering and the option offering. None of these net proceeds from the initial public offering and the optional offering were paid, directly or indirectly, to any of our directors or officers or their associates, persons owning 10% or more of our equity securities or our affiliates or others.

For the period from the effective date of the registration statement on Form F-1 to December 31, 2019, we used US\$30 million received from the initial public offering and the optional offering and US\$35.75 million for repayment of CTBC loan.

### ITEM 15. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2019, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

#### Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such item is defined in Rules 13a-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with generally accepted accounting principles and includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company’s assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company’s receipts and expenditures are being made only in accordance with authorizations of a company’s management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company’s assets that could have a material effect on the consolidated financial statements.

## [Table of Contents](#)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As required by Section 404 of the Sarbanes-Oxley Act of 2002 and related rules as promulgated by the SEC, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 using criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the “COSO Criteria”).

Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2019 based on the COSO Criteria.

### **Attestation Report of the Registered Public Accounting Firm**

This annual report on Form 20-F does not include an attestation report of the company’s registered public accounting firm due to a transition period established by rules of the SEC for emerging growth companies.

### **Changes in Internal Control over Financial Reporting**

Management has evaluated, with the participation of our chief executive officer and chief financial officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal year have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Based on the evaluation we conducted, management has concluded that no such changes occurred during the period covered by this annual report on Form 20-F.

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has also determined that Weili Hong, an independent director and a member of our audit committee, qualifies as an “audit committee financial expert” within the meaning of the SEC rules and possesses financial sophistication within the meaning of Listing Rules of the NASDAQ Stock Market. Weili Hong meets the independence standards under Rule 10A-3 under the Exchange Act.

### **ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a code of business conduct and ethics that applies to all of our directors, officers, employees, including certain provisions that specifically apply to our principal executive officer, principal financial officer, principal accounting officer or controller and any other persons who perform similar functions for us. We have filed our code of business conduct and ethics as Exhibit 99.1 of our registration statement on Form F-1 (File Number: 333-220587) filed with the SEC on September 22, 2017 and posted a copy of our code of business conduct and ethics on our website at [en.risecenter.com](http://en.risecenter.com). We hereby undertake to provide to any person without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person’s written request.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by Ernst & Young Hua Ming LLP, our independent registered public accounting firm, for the periods indicated. We did not pay any other fees to our independent registered public accounting firm during the periods indicated below.

|                       | <b>For the Year Ended December 31,</b> |             |             |
|-----------------------|--|-------------|-------------|
|                       | <b>2017</b>                            | <b>2018</b> | <b>2019</b> |
|                       | (in thousands)                         |             |             |
| Audit fees(1)         | \$ 1,076                               | \$ 1,270    | \$ 1,106    |
| Audit-related fees(2) | \$ 131                                 | \$ —        | \$ —        |
| Tax fees(3)           | \$ 11                                  | \$ 4        | \$ 15       |
| All other fees(4)     | \$ —                                   | \$ 64       | \$ 265      |

- (1) Audit fees means the aggregate fees billed in each of the fiscal periods listed for professional services rendered by our principal auditors for the audit of our annual consolidated financial statements and assistance with and review of documents filed with the SEC.
- (2) Audit-related fees means the aggregate fees billed for professional services rendered by our principal auditors for the assurance and related services, which were not included under Audit Fees above.
- (3) Tax fees means the aggregate fees billed in each of the fiscal periods listed for professional tax services rendered by our principal auditors.
- (4) “All other fees” means the aggregate fees billed in each of the fiscal periods listed for professional services rendered by our principal auditors other than the professional services reported under “audit fees”, “audit-related fees” and “tax fees”. In 2019, the professional services were related to permissible advisory services rendered by our principal auditors.

The policy of our audit committee is to pre-approve all audit and non-audit services provided by Ernst & Young Hua Ming LLP, our independent registered public accounting firm, including audit services and audit-related services as described above, other than those for de minimus services which are approved by the audit committee prior to the completion of the audit.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

On November 15, 2018, we announced a share repurchase program (the “Share Repurchase Program”) for a total consideration of up to US\$30.0 million of our outstanding ADSs for a period not exceeding one year commencing on November 19, 2018. The Share Repurchase Program was completed during the third quarter of 2019, pursuant to which the Company repurchased a total of 1,158,741 ADSs, representing 2,311,482 ordinary shares, on the open market, at an average price of US\$8.66 per ADS and for an aggregate consideration of US\$10.0 million.

The following table provides information about the shares repurchased in each month of the fiscal year of 2019.

**Issuer Purchases of Equity Securities**

| <u>Period</u>        | <u>(a) Total<br/>Number of<br/>Shares<br/>Purchased</u> | <u>(b) Average<br/>Price Paid<br/>per Share</u> | <u>(c) Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plans or<br/>Programs</u> | <u>(d) Maximum Number (or<br/>Appropriate Dollar Value)<br/>of Shares that May Yet Be<br/>Purchased Under<br/>the Plans<br/>or Programs</u> |
|----------------------|---|---|---|---|
| Month #1             |   |   |   |   |
| Jan 1 - Jan 31, 2019 | 240,518   | 4.06  | 1,065,692   | 25,620,060  |
| Month #2             |   |   |   |   |
| Feb 1 - Feb 28, 2019 | —   | N/A   | 1,065,692   | 25,620,060  |
| Month #3             |   |   |   |   |
| Mar 1 - Mar 31, 2019 | 122,064   | 4.94  | 1,187,756   | 25,015,356  |
| Month #4             |   |   |   |   |
| Apr 1 - Apr 30, 2019 | —   | NA  | 1,187,756   | 25,015,356  |
| Month #5             |   |   |   |   |
| May 1 - May31, 2019  | 94,154  | 4.61  | 1,281,910   | 24,579,538  |
| Month #6             |   |   |   |   |
| Jun 1 - Jun 30, 2019 | 657,544   | 4.6   | 1,939,454   | 21,518,085  |
| Month #7             |   |   |   |   |
| Jul 1 - Jul 31, 2019 | —   | NA  | 1,939,454   | 21,518,085  |
| Month #8             |   |   |   |   |
| Aug 1 - Aug 31, 2019 | 71,280  | 4.06  | 2,010,734   | 21,227,947  |
| Month #9             |   |   |   |   |
| Sep 1 - Sep 30, 2019 | 306,748   | 4.11  | 2,317,482   | —   |

**ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

The listing rules of the Nasdaq (the “Nasdaq Listing Rules”), include certain accommodations in the corporate governance requirements that allow foreign private issuers, such as us, to follow “home country” corporate governance practices in lieu of the otherwise applicable corporate governance standards of the Nasdaq pursuant to the requirement under Rule 5615(a)(3) of the Nasdaq Listing Rules. The application of such exceptions requires that we disclose any significant ways that our corporate governance practices differ from the Nasdaq Listing Rules that we do not follow. We are currently a “controlled company” as defined under Rule 5615(c) of the Nasdaq Listing Rules. Upon ceasing to be a “controlled company”, as a foreign private issuer, we intend to continue to follow Cayman Islands corporate governance practices in lieu of the corporate governance requirements of the Nasdaq in respect of the following:

- the requirement under Rule 5620(a) of the Nasdaq Listing Rules for holding an annual meeting of shareholders within one year of the end of each fiscal year;
- the requirement under Rule 5605(b) of the Nasdaq Listing Rules that the majority of the board of directors must be comprised of Independent Directors as defined in Rule 5605(a)(2) of the Nasdaq Listing Rules;
- the requirement under Rule 5605(d) of the Nasdaq Listing Rules that each compensation committee member must be an Independent Director as defined in Rule 5605(a)(2) of the Nasdaq Listing Rules; and
- the requirement under Rule 5605(e) of the Nasdaq Listing Rules that each nomination committee member must be an Independent Director as defined in Rule 5605(a)(2) of the Nasdaq Listing Rules.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

We have elected to provide financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements of RISE Education Cayman Ltd are included at the end of this annual report.

**ITEM 19. EXHIBITS**

| <b>Exhibit Number</b> | <b>Description of Document</b>  |
|-----------------------|---|
| 1.1                   | <a href="#">Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 3.2 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>  |
| 2.1                   | <a href="#">Form of Registrant's Specimen American Depositary Receipt (included in Exhibit 2.3)</a>   |
| 2.2                   | <a href="#">Registrant's Specimen Certificate for ordinary shares (incorporated by reference to Exhibit 4.2 from our registration statement on Amendment No. 2 to Form F-1 (File No. 333-220587) filed publicly with the SEC on October 18, 2017)</a>   |
| 2.3                   | <a href="#">Form of Deposit Agreement among the registrant, the depository and owners and holders of the ADSs (incorporated by reference to Exhibit 4.3 from our registration statement on Amendment No. 2 to Form F-1 (File No. 333-220587) filed publicly with the SEC on October 18, 2017)</a>   |
| 4.1                   | <a href="#">2016 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>  |
| 4.2                   | <a href="#">2017 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>  |
| 4.3                   | <a href="#">Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.3 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>   |
| 4.4                   | <a href="#">Form of Employment Agreement with each executive officer of the Registrant (incorporated by reference to Exhibit 10.4 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>  |
| 4.5                   | <a href="#">Amended and Restated License Agreement between Daplon Limited and Rise Education Hong Kong Limited, dated September 28, 2013 and Letter Agreement between Houghton Mifflin Harcourt Publishing Company and Rise IP (Cayman) Limited, dated October 11, 2013 (incorporated by reference to Exhibit 10.5 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a> |
| 4.6                   | <a href="#">English translation of Loan Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and Peng Zhang, dated November 11, 2016 (incorporated by reference to Exhibit 10.6 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>   |
| 4.7                   | <a href="#">English translation of Loan Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and Yiding Sun, dated June 8, 2017 (incorporated by reference to Exhibit 10.7 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>  |
| 4.8                   | <a href="#">English translation of Call Option Agreement among Rise (Tianjin) Education Information Consulting Co., Ltd., Peng Zhang, Yiding Sun and Beijing Step Ahead Education Technology Development Co., Ltd., dated June 8, 2017 (incorporated by reference to Exhibit 10.8 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>                                  |
| 4.9                   | <a href="#">English translation of Proxy Agreement among Rise (Tianjin) Education Information Consulting Co., Ltd., Peng Zhang, Yiding Sun and Beijing Step Ahead Education Technology Development Co., Ltd., dated June 8, 2017 (incorporated by reference to Exhibit 10.9 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</a>  |

## Table of Contents

| <b>Exhibit Number</b> | <b>Description of Document</b>  |
|-----------------------|---|
| 4.10                  | <a href="#"><u>English translation of Equity Pledge Agreement among Rise (Tianjin) Education Information Consulting Co., Ltd., Peng Zhang, Yiding Sun and Beijing Step Ahead Education Technology Development Co., Ltd., dated June 8, 2017 (incorporated by reference to Exhibit 10.10 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</u></a>        |
| 4.11                  | <a href="#"><u>English translation of Business Cooperation Agreement among Rise (Tianjin) Education Information Consulting Co., Ltd., Peng Zhang, Yiding Sun and Beijing Step Ahead Education Technology Development Co., Ltd., dated June 8, 2017 (incorporated by reference to Exhibit 10.11 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</u></a> |
| 4.12                  | <a href="#"><u>Consulting Service Agreement between Bain Capital Rise Education (HK) Limited and Rise (Tianjin) Education Information Consulting Co., Ltd., dated January 12, 2014 (incorporated by reference to Exhibit 10.12 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</u></a>   |
| 4.13                  | <a href="#"><u>Consulting Service Agreement between Bain Capital Rise Education (HK) Limited and Beijing Step Ahead Education Technology Development Co., Ltd., dated January 12, 2014 (incorporated by reference to Exhibit 10.13 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</u></a>   |
| 4.14                  | <a href="#"><u>English translation of Service Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and Beijing Step Ahead Education Technology Development Co., Ltd., dated December 1, 2014 (incorporated by reference to Exhibit 10.14 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</u></a>                                |
| 4.15                  | <a href="#"><u>English translation of form of Comprehensive Service Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and each of Beijing Step Ahead Education Technology Development Co., Ltd.'s schools (incorporated by reference to Exhibit 10.15 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</u></a>                |
| 4.16                  | <a href="#"><u>Form of License Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and each of the Beijing Step Ahead Education Technology Development Co., Ltd.'s schools (incorporated by reference to Exhibit 10.16 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</u></a>   |
| 4.17*                 | <a href="#"><u>Consulting Service Agreement between Rise Education International Limited and Rise (Tianjin) Education Information Consulting Co., Ltd. dated June 28, 2019</u></a>  |
| 4.18*                 | <a href="#"><u>English translation of Service Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and Beijing Step Ahead Education Technology Development Co., Ltd. dated June 28, 2019</u></a>   |
| 4.19*                 | <a href="#"><u>English translation of License Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and Beijing Step Ahead Education Technology Development Co., Ltd. dated June 28, 2019</u></a>   |
| 4.20*                 | <a href="#"><u>English translation of Consulting Service Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and Beijing Step Ahead Education Technology Development Co., Ltd. dated June 28, 2019</u></a>  |
| 4.21*                 | <a href="#"><u>English translation of form of License Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and each of Beijing Step Ahead Education Technology Development Co., Ltd.'s schools dated June 28, 2019</u></a>   |
| 4.22*                 | <a href="#"><u>English translation of form of License Agreement with respect to Management System between Rise (Tianjin) Education Information Consulting Co., Ltd. and each of Beijing Step Ahead Education Technology Development Co., Ltd.'s schools dated June 28, 2019</u></a>   |
| 4.23*                 | <a href="#"><u>English translation of form of Service Agreement between Rise (Tianjin) Education Information Consulting Co., Ltd. and each of Beijing Step Ahead Education Technology Development Co., Ltd.'s schools dated June 28, 2019</u></a>   |
| 4.24*                 | <a href="#"><u>English translation of form of Framework Agreement on Purchase of Teaching Materials between Rise (Tianjin) Education Information Consulting Co., Ltd. and each of Beijing Step Ahead Education Technology Development Co., Ltd.'s schools dated June 28, 2019</u></a>   |

## Table of Contents

| <b>Exhibit Number</b> | <b>Description of Document</b>  |
|-----------------------|---|
| 4.25                  | <a href="#"><u>Deed of Amendment Agreement between RISE Education Cayman I Ltd, RISE Education Cayman III Ltd, Rise IP, Bain Capital Rise Education (HK) Limited, Rise (Tianjin) Education Information Consulting Co., Ltd., Beijing Step Ahead Education Technology Development Co, Ltd., Bain Capital Rise Education IV Cayman Limited, RISE Education Cayman Ltd., CTBC Bank Co., Ltd. and others, dated September 19, 2017 (incorporated by reference to Exhibit 10.17 from our registration statement on Amendment No. 1 to Form F-1 (File No. 333-220587) filed publicly with the SEC on October 6, 2017)</u></a> |
| 8.1*                  | <a href="#"><u>Principal Subsidiaries and Affiliated Entities of the Registrant</u></a>   |
| 11.1                  | <a href="#"><u>Code of Business Conduct and Ethics of the Registrant (incorporated by reference to Exhibit 99.1 from our registration statement on Form F-1 (File No. 333-220587) filed publicly with the SEC on September 22, 2017)</u></a>  |
| 12.1*                 | <a href="#"><u>Certification by the Group Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>  |
| 12.2*                 | <a href="#"><u>Certification by the Group Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>  |
| 13.1**                | <a href="#"><u>Certification by the Group Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>  |
| 13.2**                | <a href="#"><u>Certification by the Group Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>  |
| 15.1*                 | <a href="#"><u>Consent of Ernst &amp; Young Hua Ming LLP, Independent Registered Public Accounting Firm</u></a>   |
| 15.2*                 | <a href="#"><u>Consent of Maples and Calder (Hong Kong) LLP</u></a>   |
| 15.3*                 | <a href="#"><u>Consent of Fangda Partners regarding certain PRC law matters</u></a>   |
| 101.INS*              | XBRL Instance Document  |
| 101.SCH*              | XBRL Taxonomy Extension Schema Document   |
| 101.CAL*              | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF*              | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB*              | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE*              | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Filed with this annual report on Form 20-F.

\*\* Furnished with this annual report on Form 20-F.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

RISE Education Cayman Ltd

By: /s/ Lihong Wang

Name: Lihong Wang

Title: Chairwoman and Chief Executive Officer

Date: April 17, 2020

[Signature Page to 20-F]

RISE EDUCATION CAYMAN LTD

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|   | <u>Page</u> |
|---|-------------|
| <a href="#">Report of Independent Registered Public Accounting Firm</a>   | F-2         |
| <a href="#">Consolidated Balance Sheets as of December 31, 2018 and 2019</a>  | F-3-F-4     |
| <a href="#">Consolidated Statements of (Loss)/Income for the Years Ended December 31, 2017, 2018 and 2019</a>                   | F-5         |
| <a href="#">Consolidated Statements of Comprehensive (Loss)/Income for the Years Ended December 31, 2017, 2018 and 2019</a>     | F-6         |
| <a href="#">Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2017, 2018 and 2019</a> | F-7-F-9     |
| <a href="#">Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2018 and 2019</a>                      | F-10-F-11   |
| <a href="#">Notes to the Consolidated Financial Statements</a>  | F-12-F-60   |

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of RISE Education Cayman Ltd

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of RISE Education Cayman Ltd (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of (loss)/income, comprehensive (loss)/income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

### Adoption of New Accounting Standards

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for accounting for revenue from contracts with customers using a modified retrospective approach during the year ended December 31, 2018, and its method for accounting for leases using a modified retrospective approach during the year ended December 31, 2019.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young Hua Ming LLP

We have served as the Company’s auditor since 2017.

Beijing, the People’s Republic of China

April 17, 2020

RISE EDUCATION CAYMAN LTD

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except share and ADS data and per share and per ADS data)

|   | Notes | As at December 31, |                  |                |
|---|-------|--------------------|------------------|----------------|
|   |       | 2018<br>RMB        | 2019<br>RMB      | 2019<br>US\$   |
| <b>ASSETS</b>   |       |                    |                  |                |
| <b>Current assets:</b>  |       |                    |                  |                |
| Cash and cash equivalents   |       | 1,288,080          | 999,012          | 143,499        |
| Restricted cash   |       | 28,705             | 23,813           | 3,421          |
| Accounts receivable, net  |       | 2,438              | 1,745            | 251            |
| Amounts due from a related party  | 13    | 190                | 191              | 27             |
| Inventories   |       | 11,320             | 8,685            | 1,248          |
| Prepayments and other current assets  | 6     | 71,537             | 51,420           | 7,386          |
| <b>Total current assets</b>   |       | <b>1,402,270</b>   | <b>1,084,866</b> | <b>155,832</b> |
| <b>Non-current assets:</b>  |       |                    |                  |                |
| Property and equipment, net   | 7     | 128,412            | 137,340          | 19,728         |
| Intangible assets, net  | 8     | 198,057            | 210,346          | 30,214         |
| Long-term investment  | 2     | —                  | 33,000           | 4,740          |
| Goodwill  | 9     | 491,969            | 665,416          | 95,581         |
| Deferred tax assets   | 12    | 6,713              | 11,026           | 1,584          |
| Other non-current assets  |       | 53,353             | 49,638           | 7,130          |
| Operating lease right-of-use assets   | 2     | —                  | 610,323          | 87,667         |
| <b>Total non-current assets</b>   |       | <b>878,504</b>     | <b>1,717,089</b> | <b>246,644</b> |
| <b>Total assets</b>   |       | <b>2,280,774</b>   | <b>2,801,955</b> | <b>402,476</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |       |                    |                  |                |
| <b>Current liabilities</b> (including current liabilities of the variable interest entity (“VIE”) without recourse to the Company amounting to RMB1,124,250 and RMB1,031,260 (US\$145,546) as of December 31, 2018 and 2019, respectively): |       |                    |                  |                |
| Current portion of long-term loan   | 11    | 82,506             | 134,015          | 19,250         |
| Accounts payable  |       | 8,426              | 7,553            | 1,085          |
| Accrued expenses and other current liabilities  | 10    | 159,882            | 202,808          | 29,133         |
| Deferred revenue and customer advances  | 5     | 1,002,796          | 716,637          | 102,938        |
| Income taxes payable  | 12    | 25,262             | 14,594           | 2,096          |
| Current portion of operating lease liabilities  | 2     | —                  | 157,911          | 22,682         |
| <b>Total current liabilities</b>  |       | <b>1,278,872</b>   | <b>1,233,518</b> | <b>177,184</b> |

*The accompanying notes are an integral part of the consolidated financial statements.*

## RISE EDUCATION CAYMAN LTD

## CONSOLIDATED BALANCE SHEETS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except share and ADS data and per share and per ADS data)

|   | Notes | As at December 31, |                  |                |
|---|-------|--------------------|------------------|----------------|
|   |       | 2018<br>RMB        | 2019<br>RMB      | 2019<br>US\$   |
| <b>Non-current liabilities</b> (including non-current liabilities of the VIE without recourse to the Company amounting to RMB39,275 and RMB512,827 (US\$73,663) as of December 31, 2018 and 2019, respectively) |       |                    |                  |                |
| Long-term loan  | 11    | 502,356            | 370,163          | 53,171         |
| Non-current deferred revenue and customer advances  | 5     | 36,037             | 39,397           | 5,659          |
| Deferred tax liabilities  | 12    | 14,541             | 31,116           | 4,470          |
| Other non-current liabilities   | 12    | 8,134              | 39,156           | 5,624          |
| Operating lease liabilities   | 2     | —                  | 464,304          | 66,692         |
| <b>Total non-current liabilities</b>  |       | <b>561,068</b>     | <b>944,136</b>   | <b>135,616</b> |
| <b>Total liabilities</b>  |       | <b>1,839,940</b>   | <b>2,177,654</b> | <b>312,800</b> |
| <b>Commitments and contingencies</b>  | 17    | —                  | —                | —              |
| <b>Shareholders' equity:</b>  |       |                    |                  |                |
| Ordinary shares (US\$0.01 par value; 200,000,000 and 200,000,000 shares authorized, 113,779,244 and 112,755,320 shares issued and outstanding as of December 31, 2018 and 2019, respectively)                   |       | 7,074              | 6,946            | 998            |
| Additional paid-in capital  |       | 600,011            | 583,262          | 83,780         |
| Treasury shares   |       | (23,460)           | —                | —              |
| Statutory reserves  | 14    | 78,345             | 104,830          | 15,058         |
| Accumulated deficit   |       | (248,674)          | (127,059)        | (18,251)       |
| Accumulated other comprehensive income  | 18    | 42,459             | 40,917           | 5,877          |
| <b>Total RISE Education Cayman Ltd shareholders' equity</b>   |       | <b>455,755</b>     | <b>608,896</b>   | <b>87,462</b>  |
| Non-controlling interests   |       | (14,921)           | 15,405           | 2,214          |
| <b>Total equity</b>   |       | <b>440,834</b>     | <b>624,301</b>   | <b>89,676</b>  |
| <b>Total liabilities, non-controlling interests and shareholders' equity</b>  |       | <b>2,280,774</b>   | <b>2,801,955</b> | <b>402,476</b> |

*The accompanying notes are an integral part of the consolidated financial statements.*

RISE EDUCATION CAYMAN LTD

CONSOLIDATED STATEMENTS OF (LOSS)/INCOME

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except share and ADS data and per share and per ADS data)

|  | Notes | For the years ended December 31, |                  |                  |                 |
|--|-------|----------------------------------|------------------|------------------|-----------------|
|  |       | 2017<br>RMB                      | 2018<br>RMB      | 2019<br>RMB      | 2019<br>US\$    |
| Revenues   | 5     | 969,275                          | 1,271,888        | 1,529,447        | 219,691         |
| Cost of revenues   |       | (452,220)                        | (576,530)        | (694,693)        | (99,786)        |
| <b>Gross profit</b>  |       | <b>517,055</b>                   | <b>695,358</b>   | <b>834,754</b>   | <b>119,905</b>  |
| <b>Operating expenses:</b>   |       |                                  |                  |                  |                 |
| Selling and marketing  |       | (177,993)                        | (245,662)        | (307,339)        | (44,146)        |
| General and administrative   |       | (339,690)                        | (242,084)        | (304,626)        | (43,757)        |
| <b>Total operating expenses</b>                                    |       | <b>(517,683)</b>                 | <b>(487,746)</b> | <b>(611,965)</b> | <b>(87,903)</b> |
| <b>Operating (loss)/income</b>                                     |       | <b>(628)</b>                     | <b>207,612</b>   | <b>222,789</b>   | <b>32,002</b>   |
| Interest income  |       | 19,559                           | 26,376           | 17,952           | 2,579           |
| Interest expense   |       | (26,589)                         | (33,803)         | (34,093)         | (4,897)         |
| Foreign currency exchange gain/(loss)                              |       | 388                              | (1,383)          | (1,506)          | (216)           |
| Other income, net  |       | 6,594                            | 15,397           | 10,115           | 1,452           |
| <b>(Loss)/income before income tax expense</b>                     |       | <b>(676)</b>                     | <b>214,199</b>   | <b>215,257</b>   | <b>30,920</b>   |
| Income tax expense   | 12    | (52,924)                         | (71,763)         | (70,697)         | (10,155)        |
| <b>Net (loss)/ income</b>  |       | <b>(53,600)</b>                  | <b>142,436</b>   | <b>144,560</b>   | <b>20,765</b>   |
| Add: Net loss attributable to non-controlling interests            |       | 5,626                            | 522              | 3,540            | 508             |
| <b>Net (loss)/income attributable to RISE Education Cayman Ltd</b> |       | <b>(47,974)</b>                  | <b>142,958</b>   | <b>148,100</b>   | <b>21,273</b>   |
| <b>Net (loss)/income per share:</b>                                |       |                                  |                  |                  |                 |
| Basic  | 15    | (0.47)                           | 1.26             | 1.29             | 0.19            |
| Diluted  | 15    | (0.47)                           | 1.23             | 1.27             | 0.18            |
| <b>Net (loss)/income per ADS (1 ADS equals 2 ordinary shares):</b> |       |                                  |                  |                  |                 |
| Basic  | 15    | (0.94)                           | 2.51             | 2.58             | 0.37            |
| Diluted  | 15    | (0.94)                           | 2.47             | 2.55             | 0.37            |
| <b>Shares used in net (loss)/income per share computation</b>      |       |                                  |                  |                  |                 |
| Basic  | 15    | 101,890,411                      | 113,812,182      | 114,905,223      | 114,905,223     |
| Diluted  | 15    | 101,890,411                      | 115,881,867      | 116,181,610      | 116,181,610     |

The accompanying notes are an integral part of the consolidated financial statements.

## RISE EDUCATION CAYMAN LTD

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)/INCOME

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”),  
except share and ADS data and per share and per ADS data)

|  | For the years ended December 31, |                |                |               |
|--|----------------------------------|----------------|----------------|---------------|
|  | 2017                             | 2018           | 2019           | 2019          |
|  | RMB                              | RMB            | RMB            | US\$          |
| <b>Net (loss)/income</b>   | <b>(53,600)</b>                  | <b>142,436</b> | <b>144,560</b> | <b>20,765</b> |
| <b>Other comprehensive (loss)/income, net of tax of nil:</b>                 |                                  |                |                |               |
| Foreign currency translation adjustments                                     | (10,424)                         | 2,419          | (1,542)        | (221)         |
| <b>Other comprehensive (loss)/income</b>                                     | <b>(10,424)</b>                  | <b>2,419</b>   | <b>(1,542)</b> | <b>(221)</b>  |
| <b>Comprehensive (loss)/income</b>   | <b>(64,024)</b>                  | <b>144,855</b> | <b>143,018</b> | <b>20,544</b> |
| Add: comprehensive loss attributable to non-controlling interests            | 5,626                            | 522            | 3,540          | 508           |
| <b>Comprehensive (loss)/income attributable to RISE Education Cayman Ltd</b> | <b>(58,398)</b>                  | <b>145,377</b> | <b>146,558</b> | <b>21,052</b> |

*The accompanying notes are an integral part of the consolidated financial statements.*

## RISE EDUCATION CAYMAN LTD

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"),  
except share and ADS data and per share and per ADS data)

|  | Ordinary<br>shares<br>(Number) | Ordinary<br>shares<br>(Amount) | Additional<br>paid-in<br>capital | Statutory<br>reserves | Accumulated<br>deficit | Accumulative<br>other<br>comprehensive<br>income/(loss) | Total RISE<br>Education<br>Cayman Ltd<br>shareholder's<br>equity | Non-controlling<br>interests | Total<br>shareholders'<br>equity |
|--|--------------------------------|--------------------------------|----------------------------------|-----------------------|------------------------|---|--|------------------------------|----------------------------------|
| Balance at January 1, 2017   | 100,000,000                    | 6,120                          | 452,369                          | 32,511                | (134,264)              | 50,464  | 407,200  | (8,773)                      | 398,427                          |
| Issuance of ordinary shares<br>upon initial public offering<br>("IPO"), net of offering<br>costs | 10,000,000                     | 662                            | 437,167                          | —                     | —                      | —   | 437,829  | —                            | 437,829                          |
| Share-based compensation<br>(Note 16)  | —                              | —                              | 95,307                           | —                     | —                      | —   | 95,307   | —                            | 95,307                           |
| Appropriation of statutory<br>reserves   | —                              | —                              | —                                | 13,855                | (13,855)               | —   | —  | —                            | —                                |
| Distribution to a shareholder*   | —                              | —                              | (452,369)                        | —                     | (119,438)              | —   | (571,807)  | —                            | (571,807)                        |
| Net loss   | —                              | —                              | —                                | —                     | (47,974)               | —   | (47,974)   | (5,626)                      | (53,600)                         |
| Other comprehensive loss   | —                              | —                              | —                                | —                     | —                      | (10,424)  | (10,424)   | —                            | (10,424)                         |
| Balance at December 31,<br>2017  | 110,000,000                    | 6,782                          | 532,474                          | 46,366                | (315,531)              | 40,040  | 310,131  | (14,399)                     | 295,732                          |

\* On September 18, 2017, the Board of Directors approved cash distributions that was paid by the Company to the sole shareholder amounting to US\$87,000.

RISE EDUCATION CAYMAN LTD

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"), except share data)

|  | Ordinary shares (Number) | Ordinary Shares (Amount) | Additional paid-in capital | Treasury Shares | Statutory reserves | Accumulated deficit | Accumulative other comprehensive income/(loss) | Total RISE Education Cayman Ltd shareholder's equity | Non-controlling interests | Total shareholders' equity |
|--|--------------------------|--------------------------|----------------------------|-----------------|--------------------|---------------------|--|--|---------------------------|----------------------------|
| Balance at January 1, 2018                             | 110,000,000              | 6,782                    | 532,474                    | —               | 46,366             | (315,531)           | 40,040   | 310,131  | (14,399)                  | 295,732                    |
| Issuance of ordinary shares for business acquisition * | 216,021                  | 14                       | 9,198                      | —               | —                  | —                   | —  | 9,212  | —                         | 9,212                      |
| Issuances in relation to share option exercise         | 4,388,397                | 278                      | 39,708                     | —               | —                  | —                   | —  | 39,986   | —                         | 39,986                     |
| Cash-settled share-based compensation (Note 16)        | —                        | —                        | (1,721)                    | —               | —                  | —                   | —  | (1,721)  | —                         | (1,721)                    |
| Share-based compensation (Note 16)                     | —                        | —                        | 20,352                     | —               | —                  | —                   | —  | 20,352   | —                         | 20,352                     |
| Appropriation of statutory reserves                    | —                        | —                        | —                          | —               | 31,979             | (31,979)            | —  | —  | —                         | —                          |
| Repurchase of ordinary shares**                        | (825,174)                | —                        | —                          | (23,460)        | —                  | —                   | —  | (23,460)   | —                         | (23,460)                   |
| Net income   | —                        | —                        | —                          | —               | —                  | 142,958             | —  | 142,958  | (522)                     | 142,436                    |
| Effect of adoption of ASU 2014-09 (Note 5)             | —                        | —                        | —                          | —               | —                  | (44,122)            | —  | (44,122)   | —                         | (44,122)                   |
| Other comprehensive income                             | —                        | —                        | —                          | —               | —                  | —                   | 2,419  | 2,419  | —                         | 2,419                      |
| Balance at December 31, 2018                           | 113,779,244              | 7,074                    | 600,011                    | (23,460)        | 78,345             | (248,674)           | 42,459   | 455,755  | (14,921)                  | 440,834                    |

\* On November 1, 2017, the Group acquired 100% equity interest of Edge Franchising, a leading Hong Kong-based admissions consulting company specializing in overseas boarding school and college placement, and certain fixed assets, intellectual properties, material contracts and key employees of the educational consulting business ("Edge Business") from a seller in which a managing director of Bain Capital Education IV Cayman Limited ("Bain Capital Education IV") is a director and minority shareholder (Note 13). In accordance with the sale and purchase agreement, the Company shall issue to the selling shareholder 216,021 ordinary shares, which was issued on January 2, 2018.

\*\* In November 2018, the Board of Directors approved share repurchase program to purchase up to US\$30,000 of the Company's ordinary shares. As of December 31, 2018, pursuant to the share repurchase program, the Company repurchased 412,587 outstanding ADS representing 825,174 outstanding ordinary shares for an aggregated purchase price of RMB23,460, of which RMB2,093 was not settled. (Note 2)

RISE EDUCATION CAYMAN LTD

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Continued)

(Amounts in thousands of Renminbi ("RMB") and U.S. dollars ("US\$"),  
except share and ADS data and per share and per ADS data)

|   | Ordinary<br>shares<br>(Number) | Ordinary<br>Shares<br>(Amount) | Additional<br>paid-in<br>capital | Treasury<br>Shares | Statutory<br>reserves | Accumulated<br>deficit | Accumulative<br>other<br>comprehensive<br>income/(loss) | Total RISE<br>Education<br>Cayman Ltd<br>shareholder's<br>equity | Non-controlling<br>interests | Total<br>shareholders'<br>equity |
|---|--------------------------------|--------------------------------|----------------------------------|--------------------|-----------------------|------------------------|---|--|------------------------------|----------------------------------|
| Balance at<br>January 1, 2019                           | 113,779,244                    | 7,074                          | 600,011                          | (23,460)           | 78,345                | (248,674)              | 42,459  | 455,755  | (14,921)                     | 440,834                          |
| Net income  | —                              | —                              | —                                | —                  | —                     | 148,100                | —   | 148,100  | (3,540)                      | 144,560                          |
| Acquisition<br>of<br>subsidiary(Note<br>4)              | —                              | —                              | —                                | —                  | —                     | —                      | —   | —  | 33,866                       | 33,866                           |
| Share-based<br>compensation<br>(Note 16)                | —                              | —                              | 47,889                           | —                  | —                     | —                      | —   | 47,889   | —                            | 47,889                           |
| Issuances in<br>relation to<br>share option<br>exercise | 468,384                        | 32                             | 4,615                            | —                  | —                     | —                      | —   | 4,647  | —                            | 4,647                            |
| Other<br>comprehensive<br>income                        | —                              | —                              | —                                | —                  | —                     | —                      | (1,542)   | (1,542)  | —                            | (1,542)                          |
| Repurchase of<br>ordinary<br>shares*                    | (1,492,308)                    | —                              | —                                | (45,953)           | —                     | —                      | —   | (45,953)   | —                            | (45,953)                         |
| Retirement of<br>treasury<br>shares*                    | —                              | (160)                          | (69,253)                         | 69,413             | —                     | —                      | —   | —  | —                            | —                                |
| Appropriation of<br>statutory<br>reserves               | —                              | —                              | —                                | —                  | 26,485                | (26,485)               | —   | —  | —                            | —                                |
| Balance at<br>December 31,<br>2019                      | 112,755,320                    | 6,946                          | 583,262                          | —                  | 104,830               | (127,059)              | 40,917  | 608,896  | 15,405                       | 624,301                          |
| Balance at<br>December 31,<br>2019 (US\$)               | 112,755,320                    | 998                            | 83,780                           | —                  | 15,058                | (18,251)               | 5,877   | 87,462   | 2,214                        | 89,676                           |

\* In November 2018, the Board of Directors approved share repurchase program to purchase up to US\$30,000 of the Company's ordinary shares. As of December 31, 2019, pursuant to the share repurchase program, the Company repurchased 1,158,741 outstanding ADS representing 2,317,482 outstanding ordinary shares for an aggregated purchase price of RMB69,413 (US\$10,037). All shares repurchased were retired as of December 31, 2019 (Note 2).

**RISE EDUCATION CAYMAN LTD**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”))**

|   | <b>For the years ended December 31,</b> |                  |                  |                 |
|---|---|------------------|------------------|-----------------|
|   | <b>2017</b>                             | <b>2018</b>      | <b>2019</b>      | <b>2019</b>     |
|   | <b>RMB</b>                              | <b>RMB</b>       | <b>RMB</b>       | <b>US\$</b>     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |   |                  |                  |                 |
| Net (loss)/income   | (53,600)                                | 142,436          | 144,560          | 20,765          |
| Adjustments to reconcile net (loss)/income to net cash generated from operating activities: |   |                  |                  |                 |
| Depreciation and amortization expenses  | 49,711                                  | 58,225           | 70,021           | 10,058          |
| Share-based compensation  | 95,307                                  | 18,631           | 47,889           | 6,879           |
| Loss/(gain) on disposal of equipment  | 33                                      | (94)             | (7)              | (1)             |
| Amortization of debt issuance cost  | 5,129                                   | 8,225            | 7,639            | 1,097           |
| Deferred income tax expense   | 1,151                                   | 6,740            | 6,475            | 930             |
| <b>Changes in operating assets and liabilities:</b>   |   |                  |                  |                 |
| Prepayments and other current assets  | 2,617                                   | (29,839)         | 13,547           | 1,946           |
| Accounts receivable, net  | (1,695)                                 | 112              | 706              | 101             |
| Amounts due from a related party  | (6,733)                                 | 6,277            | —                | —               |
| Inventories   | (2,372)                                 | (3,415)          | 3,104            | 446             |
| Accounts payable  | 1,973                                   | 2,385            | (873)            | (125)           |
| Accrued expenses and other current liabilities  | 47,427                                  | 8,308            | (5,595)          | (804)           |
| Income taxes payable  | (2,543)                                 | 4,242            | (11,698)         | (1,680)         |
| Deferred revenue and customer advances  | 201,004                                 | 181,828          | (331,657)        | (47,640)        |
| Due to a related party  | 20,000                                  | (20,000)         | —                | —               |
| Other non-current assets  | (7,659)                                 | (9,479)          | 6,363            | 914             |
| Other non-current liabilities   | 350                                     | 5,452            | (2,220)          | (318)           |
| Operating lease right-of-use assets   | —                                       | —                | (610,323)        | (87,667)        |
| Current portion of operating lease liabilities  | —                                       | —                | 157,911          | 22,682          |
| Operating lease liabilities   | —                                       | —                | 464,304          | 66,692          |
| <b>Net cash generated from/(used in) operating activities</b>                               | <b>350,100</b>                          | <b>380,034</b>   | <b>(39,854)</b>  | <b>(5,725)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |   |                  |                  |                 |
| Proceeds from disposal of equipment   | 12                                      | 100              | 7                | 1               |
| Purchase of property and equipment  | (50,336)                                | (65,210)         | (50,849)         | (7,304)         |
| Purchase of intangible assets   | (2,743)                                 | (8,780)          | (11,592)         | (1,665)         |
| Purchase of short-term investments  | (390,000)                               | (405,000)        | (300,000)        | (43,092)        |
| Proceeds from maturity of short-term investments  | 390,000                                 | 405,000          | 300,000          | 43,092          |
| Acquisition of subsidiaries, net of cash acquired   | —                                       | (18,076)         | (16,782)         | (2,411)         |
| Purchase of long-term investment  | —                                       | —                | (33,000)         | (4,740)         |
| Business acquisition advance payment  | —                                       | (8,909)          | (2,500)          | (359)           |
| Loans to a related party  | (150,000)                               | (150,000)        | (100,000)        | (14,364)        |
| Repayment of loans to a related party   | 150,000                                 | 150,000          | 100,000          | 14,364          |
| <b>Net cash used in investing activities</b>  | <b>(53,067)</b>                         | <b>(100,875)</b> | <b>(114,716)</b> | <b>(16,478)</b> |

*The accompanying notes are an integral part of the consolidated financial statements.*

RISE EDUCATION CAYMAN LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and U.S. dollars (“US\$”), except share and ADS data and per share and per ADS data)

|  | For the years ended December 31, |                 |                  |                 |
|--|----------------------------------|-----------------|------------------|-----------------|
|  | 2017<br>RMB                      | 2018<br>RMB     | 2019<br>RMB      | 2019<br>US\$    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                  |                 |                  |                 |
| Proceeds from loans, net of issuance costs   | 573,019                          | —               | —                | —               |
| Principal repayments on loans  | (301,639)                        | (75,924)        | (97,332)         | (13,981)        |
| Repurchase of ordinary shares  | —                                | (21,367)        | (48,047)         | (6,901)         |
| Proceeds from IPO, net of capitalized expenses   | 437,829                          | —               | —                | —               |
| Proceeds from exercise of share options  | —                                | 39,985          | 4,647            | 667             |
| Distribution to a shareholder  | (571,807)                        | —               | —                | —               |
| <b>Net cash generated from/(used in) financing activities</b>                                      | <b>137,402</b>                   | <b>(57,306)</b> | <b>(140,732)</b> | <b>(20,215)</b> |
| Effects of exchange rate changes   | (6,228)                          | 10,037          | 1,342            | 193             |
| Net increase/(decrease) in cash, cash equivalents and restricted cash                              | 428,207                          | 231,890         | (293,960)        | (42,225)        |
| Cash, cash equivalents and restricted cash at beginning of year                                    | 656,688                          | 1,084,895       | 1,316,785        | 189,145         |
| Cash, cash equivalents and restricted cash at end of year  | 1,084,895                        | 1,316,785       | 1,022,825        | 146,920         |
| <b>Supplemental disclosures of cash flow information:</b>  |                                  |                 |                  |                 |
| Cash and cash equivalent   | 1,055,982                        | 1,288,080       | 999,012          | 143,499         |
| Restricted cash  | 28,913                           | 28,705          | 23,813           | 3,421           |
| Income taxes paid  | (53,418)                         | (55,326)        | (67,078)         | (9,635)         |
| Interest expense paid  | (20,472)                         | (26,707)        | (27,390)         | (3,934)         |
| <b>Non-cash investing activities:</b>  |                                  |                 |                  |                 |
| Purchase of property and equipment included in accrued expenses and other current liabilities      | (9,241)                          | (8,298)         | (10,771)         | (1,547)         |
| Consideration for business acquisitions included in accrued expenses and other current liabilities | 25,980                           | 2,000           | 18,075           | 2,596           |

*The accompanying notes are an integral part of the consolidated financial statements.*

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

1. ORGANIZATION AND BASIS OF PRESENTATION

RISE Education Cayman Ltd (the “Company”) is a limited company incorporated in the Cayman Islands under the laws of Cayman Islands on July 16, 2013. On September 30, 2013 (the “Acquisition date”), the Company acquired from certain third-party sellers a junior English Language Training (“ELT”) business (the “Acquisition”).

In October 2017, the Group completed an initial public offering (“IPO”) and issued 5,000,000 American depositary shares representing 10,000,000 of the Company’s ordinary shares.

The Company does not conduct any substantive operations on its own but instead conducts its primary business operations through its wholly-owned subsidiaries, the variable interest entity (the “VIE”), and the VIE’s subsidiaries and schools, which are located in the People’s Republic of China (the “PRC” or “China”) and Hong Kong Special Administration Region (“Hong Kong”). The VIE, the VIE’s subsidiaries and schools, hereinafter are collectively referred to as the “VIEs”. The accompanying consolidated financial statements include the financial statements of the Company, its wholly-owned subsidiaries and the VIEs (hereinafter collectively referred to as the “Group”).

The Group is principally engaged in the business of providing junior ELT services in China primarily under the “RISE” brand. The Group offers a wide range of educational programs, services and products, consisting primarily of educational courses, sale of course materials, franchise services, and study tours.

As of December 31, 2019, details of the Company’s principal subsidiaries, the VIE and the VIE’s subsidiaries and schools are as follows:

| Name   | Date of establishment | Place of establishment | Percentage of equity interest attributable to the Company | Principal activity   |
|--|-----------------------|------------------------|---|--|
| <b>Subsidiaries of the Company:</b>  |                       |                        |   |  |
| RISE Education Cayman III Ltd (“Cayman III”)   | July 29, 2013         | Cayman Islands         | 100%  | Investment holding   |
| RISE Education Cayman I Ltd (“Cayman”)   | June 19, 2013         | Cayman Islands         | 100%  | Investment holding   |
| Rise IP (Cayman) Limited (“Rise IP”)   | July 24, 2013         | Cayman Islands         | 100%  | Educational consulting   |
| Edge Franchising Co., Limited (“Edge Franchising”)                                   | March 16, 2016        | Hong Kong              | 100%  | Educational consulting   |
| Rise Education International Limited (“Rise HK”)                                     | June 24, 2013         | Hong Kong              | 100%  | Educational consulting   |
| Edge Online Co. Limited  | April 1, 2018         | Hong Kong              | 100%  | Educational consulting   |
| Rise (Tianjin) Education Information Consulting Co., Ltd. (“Rise Tianjin” or “WFOE”) | August 12, 2013       | PRC                    | 100%  | Educational consulting, Sale of course materials, study tour service |
| <b>VIE:</b>  |                       |                        |   |  |
| Beijing Step Ahead Education Technology Development Co., Ltd.                        | January 2, 2008       | PRC                    | —   | Educational consulting   |
| <b>VIE’s subsidiaries and school:</b>  |                       |                        |   |  |
| Beijing Haidian District Step Ahead Training School                                  | September 18, 2008    | PRC                    | —   | Language education   |

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

| Name  | Date of establishment | Place of establishment | Percentage of equity interest attributable to the Company | Principal activity              |
|---|-----------------------|------------------------|---|---------------------------------|
| Beijing Shijingshan District Step Ahead Training School                           | July 14, 2009         | PRC                    | —   | Language education              |
| Beijing Changping District Step Ahead Training School                             | July 3, 2009          | PRC                    | —   | Language education              |
| Beijing Chaoyang District Step Ahead Training School                              | July 20, 2009         | PRC                    | —   | Language education              |
| Beijing Xicheng District RISE Immersion Subject English Training School           | February 5, 2010      | PRC                    | —   | Language education              |
| Beijing Dongcheng District RISE Immersion Subject English Training School         | July 30, 2010         | PRC                    | —   | Language education              |
| Beijing Tongzhou District RISE Immersion Subject English Training School          | April 19, 2011        | PRC                    | —   | Language education              |
| Beijing Daxing District RISE Immersion Subject English Training School            | March 31, 2013        | PRC                    | —   | Language education              |
| Beijing Fengtai District RISE Immersion Subject English Training School           | February 28, 2012     | PRC                    | —   | Language education              |
| Beijing RISE Immersion Subject English Training School Co., Ltd.                  | October 26, 2018      | PRC                    | —   | Language education              |
| Shanghai Boyu Investment Management Co., Ltd.                                     | January 29, 2012      | PRC                    | —   | Language education              |
| Shanghai Riverdeep Education Information Consulting Co., Ltd.                     |                       |                        |   | Educational consulting services |
|   | March 8, 2010         | PRC                    | —   |                                 |
| Shanghai Huangpu District Step Ahead Training School                              | June 17, 2011         | PRC                    | —   | Language education              |
| Shanghai Ruiaidisi English Training School Co., Ltd                               | August 5, 2019        | PRC                    | —   | Language education              |
| Kunshan Ruiaidisi Education Technology Co., Ltd                                   | July 30, 2019         | PRC                    | —   | Language education              |
| Guangzhou Ruisi Education Technology Development Co., Ltd.                        | August 17, 2012       | PRC                    | —   | Training services               |
| Guangzhou Yuexiu District RISE Immersion Subject English Training School          | April 29, 2014        | PRC                    | —   | Language education              |
| Beijing Step Ahead RISE Education Technology Development Co., Ltd.                | December 11, 2019     | PRC                    | —   | Language education              |
| Guangzhou Haizhu District RISE Immersion Subject English Training School-Chigang  | December 8, 2014      | PRC                    | —   | Language education              |
| Guangzhou Tianhe District RISE Immersion Subject English Training School          | July 11, 2017         | PRC                    | —   | Language education              |
| Guangzhou Liwan District Rise Education Training Center Co., Ltd                  | November 25, 2019     | PRC                    | —   | Language education              |
| Guangzhou Tianhe District Ruisi Education Consulting Co., Ltd                     | July 11, 2017         | PRC                    | —   | Language education              |
| Shenzhen Mei Ruisi Education Management Co., Ltd.                                 | February 28, 2014     | PRC                    | —   | Training services               |
| Shenzhen Futian District Rise Training Center                                     | January 8, 2015       | PRC                    | —   | Language education              |
| Shenzhen Nanshan District Rise Training Center                                    | May 26, 2015          | PRC                    | —   | Language education              |
| Shenzhen Luohu District Rise Education Training Center                            | August 3, 2017        | PRC                    | —   | Language education              |
| Wuxi Rise Foreign Language Training Co., Ltd.                                     | June 5, 2013          | PRC                    | —   | Training services               |
| Wuxi Ruiying English Training Center Co., Ltd                                     | June 10, 2019         | PRC                    | —   | Language education              |
| Ruisixing (Tianjin) Travel Services Co., Ltd                                      | July 3, 2018          | PRC                    | —   | Traveling services              |
| Hebei Camphor Tree Information Technology Co., Ltd.                               | November 5, 2015      | PRC                    | —   | Investment holding              |
| Shijiazhuang Forest Rock Education Technology Co., Ltd.                           | August 28, 2018       | PRC                    | —   | Investment holding              |
| Shijiazhuang Xinhua District Oriental Red American Education Training School      | November 14, 2019     | PRC                    | —   | Language education              |
| Shijiazhuang Xinhua District Zhuoshuo Training School Co., Ltd                    | December 13, 2019     | PRC                    | —   | Language education              |
| Shijiazhuang Yuhua District Ai Ruisi Education Training School                    | February 1, 2019      | PRC                    | —   | Language education              |
| Shijiazhuang Yuhua District Oriental Red Education Training School                | February 1, 2019      | PRC                    | —   | Language education              |
| Shijiazhuang Chang’an District Jinshuo Culture Education Training School Co., Ltd | April 1, 2019         | PRC                    | —   | Language education              |

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

*The VIE arrangements*

PRC laws and regulations currently require any foreign entity that invests in the education business in China to be an educational institution with relevant experience in providing educational services outside China. The Group’s offshore holding companies are not educational institutions and do not provide educational services outside China. Accordingly, the Group’s offshore holding companies are not allowed to directly engage in the education business in China. To comply with PRC laws and regulations, the Group conducts all of its junior ELT business in China through the VIEs. The VIEs hold the requisite licenses and permits necessary to conduct the Group’s junior ELT business. In addition, the VIEs hold leases and other assets necessary to operate the Group’s schools, employ teachers and generate substantially all of the Group’s revenues. Despite the lack of technical majority ownership, the Company has effective control of the VIE through a series of contractual arrangements (the “Contractual Agreements”) and a parent-subsidiary relationship exists between the Company and the VIE. The equity interests of the VIE are legally held by PRC individuals (the “Nominee Shareholders”). Through the Contractual Agreements, the nominee shareholders of the VIE effectively assign all their voting rights underlying their equity interests in the VIE to the Company, and therefore, the Company has the power to direct the activities of the VIE that most significantly impact its economic performance. The Company also has the right to receive economic benefits from the VIE that potentially could be significant to the VIE. Based on the above, the Company consolidates the VIE in accordance with SEC Regulation SX-3A-02 and Accounting Standards Codification (“ASC”) 810-10, *Consolidation: Overall*.

The following is a summary of the Contractual Agreements:

**Proxy Agreement.** Pursuant to the Proxy Agreement signed between the respective Nominee Shareholders and the WFOE, the Nominee Shareholders agreed to entrust to the WFOE an irrevocable proxy to exercise all of their voting rights as shareholders of the VIE and approve on behalf of the Nominee Shareholders, all related legal documents pertinent to the exercise of their rights in their capacity as the shareholders of the VIE. The WFOE is also entitled to transfer or assign its voting rights to any other person or entity at its own discretion and without giving prior notice to the Nominee Shareholders or obtaining their consent. The Proxy Agreement remains valid for as long as at least one of the Nominee Shareholders remains a shareholder of the VIE.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

*The VIE arrangements (Continued)*

**Loan Agreements.** Pursuant to the Loan Agreements between the respective Nominee Shareholders and the WFOE, the WFOE granted interest-free loans to the Nominee Shareholders to acquire all the equity interests from the VIE’s predecessor shareholders as part of the Acquisition. The loan has a term of ten years and the WFOE has the sole discretion to extend the loan. The Nominee Shareholders are not allowed to repay the loan in advance of the maturity date without the WFOE’s prior written consent. The timing of the repayment is at the sole discretion of the WFOE and the repayment shall be in the form of transferring the VIE’s equity interest to the WFOE or its designees unless the Nominee Shareholders are in breach of the agreement, in which the WFOE can request immediate repayment of the loans.

**Call Option Agreement.** Pursuant to the Call Option Agreement entered into between the Nominee Shareholders, the VIE and the WFOE, the Nominee Shareholders granted to the WFOE or its designees (i) an exclusive option to purchase, when and to the extent permitted under PRC laws, all or part of all equity interests in the VIE and (ii) an exclusive right to cause the Nominee Shareholders to transfer their equity interest in the VIE to the WFOE or any designated party. The WFOE has the sole discretion when to exercise the option, whether in part or full. The exercise price of the option to purchase all or part of the equity interests in the VIE will be the minimum amount of consideration permitted by the applicable PRC laws. Any proceeds received by the Nominee Shareholders from the exercise of the option exceeding the loan amount, distribution of profits or dividends, shall be remitted to the WFOE, to the extent permitted under PRC laws. The Call Option Agreement will remain in effect until all the equity interests held by the VIE are transferred to the WFOE or its designated party. The WFOE may terminate the Call Option Agreement at their sole discretion, whereas under no circumstances may the VIE or its Nominee Shareholders terminate in accordance with the agreement.

**Business Cooperation Agreement.** Pursuant to the Business Cooperation Agreement entered into among the WFOE, the VIE and the Nominee Shareholders, the VIE and Nominee Shareholders must appoint candidates designated by the WFOE as the VIE’s board of directors and senior executives of the VIEs. In addition, without the prior written consent of WFOE, the VIE and Nominee Shareholders cannot carry out the following activities: (i) increase or decrease the registered capital of the VIEs; (ii) sell or dispose any assets or rights except in the ordinary course of business; (iii) open any new school; (iv) appoint or remove any management director, supervisor or senior executive; (v) enter into any transaction with its shareholders, directors or senior management; (vi) distribute any profits or other payments to its shareholders; (vii) amend its articles of association; (viii) provide any loans to any third parties; (ix) provide security or any other guarantee, (x) pledge or other rights and interests on any of its assets to third parties; or (xi) engage in any transaction that may materially affect their assets, obligations, rights or operations. The agreement has an initial term of ten years, which will be automatically extended for a successive ten year term upon expiration. Neither the VIE nor the Nominee Shareholders may unilaterally terminate this agreement. In June 2017, the agreement was supplemented such that the WFOE has the right to determine and adjust any service fees charged to the VIE at its sole discretion, effective from January 1, 2014.

**Equity Pledge Agreement.** Pursuant to the Equity Pledge Agreement entered into among the WFOE, the Nominee Shareholders and the VIE, the Nominee Shareholders pledged all of their equity interests in the VIE to the WFOE as collateral to secure their obligations under the above agreements. The Nominee Shareholders further undertake that they will remit any distributions in connection with such shareholder’s equity interests in the VIE to the WFOE, to the extent permitted by PRC laws. If the VIE or any of its Nominee Shareholders breach any of their respective contractual obligations under the above agreements, the WFOE, as the pledgee, will be entitled to certain rights, including the right to sell, transfer or dispose of the pledged equity interest. The Nominee Shareholders of the VIE agree not to create any encumbrance on or otherwise transfer or dispose of their respective equity interest in the VIE, without the prior consent of the WFOE. The Equity Pledge Agreement will be valid until the VIE and their respective shareholders fulfill all the contractual obligations under the above agreements in full and the pledged equity interests have been transferred to the WFOE and/or its designees.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

*The VIE arrangements (Continued)*

**Equity Pledge Agreement.** Pursuant to the Equity Pledge Agreement entered into among the WFOE, the Nominee Shareholders and the VIE, the Nominee Shareholders pledged all of their equity interests in the VIE to the WFOE as collateral to secure their obligations under the above agreements. The Nominee Shareholders further undertake that they will remit any distributions in connection with such shareholder’s equity interests in the VIE to the WFOE, to the extent permitted by PRC laws. If the VIE or any of its Nominee Shareholders breach any of their respective contractual obligations under the above agreements, the WFOE, as the pledgee, will be entitled to certain rights, including the right to sell, transfer or dispose of the pledged equity interest. The Nominee Shareholders of the VIE agree not to create any encumbrance on or otherwise transfer or dispose of their respective equity interest in the VIE, without the prior consent of the WFOE. The Equity Pledge Agreement will be valid until the VIE and their respective shareholders fulfill all the contractual obligations under the above agreements in full and the pledged equity interests have been transferred to the WFOE and/or its designees.

**Consulting Services Agreements.** Rise HK has entered into Consulting Services Agreements with the WFOE and the VIE in 2014, respectively, under which Rise HK provides certain technical and business support services. In return, the WFOE and the VIE agree to pay service fees to Rise HK. The initial term of these agreements is five years, which can be automatically renewed for another five years, unless one party notifies the other party in writing of its intention not to renew within 30 days of expiration.

In June 2019, Rise HK entered into a new consulting service agreement with the WFOE, replacing the consulting service agreement with the WFOE entered in 2014. Under this new consulting service agreement, Rise HK provides strategic consulting services to the WFOE, including consulting services with respect to strategic planning on curriculum products and strategic consultation on curriculum products, and the WFOE agrees to pay a service fee to Rise HK. The initial term of this agreement is five years, which will be renewed for another five years automatically unless one party does not consent.

The Consulting Service Agreement between Rise HK and the VIE in 2014 was terminated in June, 2019 and was replaced by a new consulting service agreement between WFOE and the VIE. No material terms or conditions were changed or altered. Therefore, there was no impact to the Company’s effective control over the VIE and the Company continued to consolidate the VIE

**Service Agreement.** Pursuant to the Service Agreement entered in 2014 (2014 Service Agreement), WFOE provides certain services to the VIE, including design of teaching plans, courseware development services and licensed use of the WFOE’s business management system. In return, the VIE agrees to pay service fees to the WFOE. The initial term of the agreement is five years, which can be automatically renewed for another five years, unless terminated through mutual agreement of the parties. Neither the VIE nor the Nominee Shareholders may unilaterally terminate the agreement.

In June 2019, the WFOE entered into a new Service Agreement, a Consulting Service Agreement and a License Agreement with the VIE, replacing the 2014 Service Agreement. Under these 2019 agreements, the WFOE (i) authorizes the VIE to use the Group’s courseware and trademarks as well as the business management system developed by the WFOE, and (ii) provides certain services, including services with respect to academic support, branding, marketing and promotion support, customer service support and administrative support, to the VIE. In return, the VIE is required to pay royalties and service fees to the WFOE. The initial term of each of these agreements is five years, renewable for another five years automatically unless the parties terminate this agreement in writing. Neither the VIE nor the Nominee Shareholders may unilaterally terminate the agreement. No material terms or conditions were changed or altered. Therefore, there was no impact to the Company’s effective control over the VIE and the Company continued to consolidate the VIE.

**Comprehensive Services Agreements.** Pursuant to Comprehensive Services Agreements entered into between the WFOE and each of the schools, the WFOE provides certain services to the schools, including design of teaching plans, courseware development services, licensed use of the WFOE’s business management system and marketing and operating support services. In return, the schools agreed to pay service fees to WFOE as stipulated in the respective agreements. The initial term of each of these agreements is five years, which can be automatically renewed for another five years, unless terminated through mutual agreement of the parties.

**License Agreements.** Pursuant to the License Agreements entered into by the WFOE and the schools, the WFOE has licensed trademarks, courseware and other materials for their use in the PRC for an initial term of five years, which will be automatically extended for a successive five years upon expiration. The schools are required to pay royalties to the WFOE, which may be adjusted at the WFOE’s sole discretion.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

*The VIE arrangements (Continued)*

Comprehensive Services Agreements and License Agreements were terminated as of June 28, 2019, and replaced with a License Agreement, a License Agreement with respect to the management system, a Service Agreement and a Framework Agreement for the purchase of teaching materials by the VIE’s schools from the WFOE dated as of the same date. Under these 2019 agreements, the WFOE continues to (i) authorize these schools to use the Group’s courseware and trademarks as well as the management systems developed by the WFOE, (ii) provide certain services, including services with respect to academic support, enrollment support, human resources support, financial management support, legal support, customer support, internet technology support and administrative support, to these schools, and (iii) sell the Group’s teaching materials to these schools at agreed upon prices. Each of the schools is required to pay royalties and service fees to the WFOE for the licenses and services provided by the WFOE. The initial term of each of these agreements is five years, renewable for another five years automatically unless the parties terminate this agreement in writing. The schools are required to pay royalties to the WFOE, which may be adjusted at the WFOE’s sole discretion. No material terms or conditions were changed or altered. Therefore, there was no impact to the Company’s effective control over the VIE and the Company continued to consolidate the VIE.

**Spousal Consent Letters.** Pursuant to the executed spousal consent letters, the spouses of the Nominee Shareholders of the VIE acknowledged that certain equity interests in the VIE held by and registered in the name of his or her spouse will be disposed pursuant to relevant arrangements under the Proxy Agreement, the Loan Agreement, the Call Option Agreement and the Equity Pledge Agreement. These spouses undertake not to take any action to interfere with the disposition of such equity interests, including, without limitation, claiming that such equity interests constitute communal marital property.

In November 2016, certain Contractual Agreements were supplemented to reflect a change in one of the Nominee Shareholders designated by Rise HK, and it was resolved that Rise HK through the WFOE held the irrevocable proxy to exercise all the voting rights of the shareholders of the VIE since the Proxy Agreement was in existence. As a result, Rise HK has the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and is the primary beneficiary of the VIE.

In June 2017, certain Contractual Arrangements were supplemented to reflect a change in one of the Nominee Shareholders designated by Rise HK.

Based on the opinion of the Company’s PRC legal counsel, (i) the ownership structure of the Group, including its subsidiaries in the PRC and VIEs are in compliance with all existing PRC laws and regulations; and (ii) each of the Contractual Agreements among Rise HK, the WFOE, the VIEs and the Nominee Shareholders governed by PRC laws, are legal, valid and binding, enforceable against such parties, and will not result in any violation of PRC laws or regulations currently in effect.

However, uncertainties in the PRC legal system could cause the relevant regulatory authorities to find the current Contractual Agreements and businesses to be in violation of any existing or future PRC laws or regulations. If the Company, Rise HK, the WFOE or any of its current or future VIEs are found in violation of any existing or future laws or regulations, or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities would have broad discretion in dealing with such violations, which may include, but not limited to, revocation of business and operating licenses, being required to discontinue or restrict its business operations, restriction of the Group’s right to collect revenues, being required to restructure its operations, imposition of additional conditions or requirements with which the Group may not be able to comply, or other regulatory or enforcement actions against the Group that could be harmful to its business. The imposition of any of these or other penalties may result in a material and adverse effect on the Group’s ability to conduct its business. In addition, if the imposition of any of these penalties causes the Company to lose the rights to direct the activities of the VIEs or the right to receive their economic benefits, the Company would no longer be able to consolidate the VIEs.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)

*The VIE arrangements (Continued)*

The following financial statement balances and amounts of the VIEs were included in the accompanying consolidated financial statements:

|  | As at December 31, |                  |                |
|--|--------------------|------------------|----------------|
|  | 2018<br>RMB        | 2019<br>RMB      | 2019<br>US\$   |
| Cash and cash equivalents                      | 947,626            | 742,402          | 106,639        |
| Restricted cash                                | 13,442             | 13,705           | 1,969          |
| Accounts receivable, net                       | 38                 | 852              | 122            |
| Inventories                                    | 1,978              | 3,455            | 496            |
| Prepayments and other current assets           | 59,141             | 36,983           | 5,312          |
| Amounts due from the Group’s subsidiaries      | 18,422             | 14,916           | 2,143          |
| <b>Total current assets</b>                    | <b>1,040,647</b>   | <b>812,313</b>   | <b>116,681</b> |
| Property and equipment, net                    | 118,482            | 127,589          | 18,327         |
| Intangible assets, net                         | 2,579              | 19,031           | 2,734          |
| Long-term investment                           | —                  | 33,000           | 4,740          |
| Goodwill                                       | 146,666            | 316,334          | 45,439         |
| Deferred tax assets                            | 6,157              | 7,567            | 1,087          |
| Other non-current assets                       | 51,660             | 47,945           | 6,887          |
| Operating lease right-of-use assets            | —                  | 575,229          | 82,626         |
| <b>Total non-current assets</b>                | <b>325,544</b>     | <b>1,126,695</b> | <b>161,840</b> |
| <b>Total assets</b>                            | <b>1,366,191</b>   | <b>1,939,008</b> | <b>278,521</b> |
| Accounts payable                               | 7,558              | 6,639            | 953            |
| Accrued expenses and other liabilities         | 126,455            | 155,709          | 22,366         |
| Deferred revenue and customer advances         | 970,022            | 690,273          | 99,152         |
| Income taxes payable                           | 20,215             | 7,391            | 1,062          |
| Amounts due to the Group’s subsidiaries        | 44,208             | 119,593          | 17,178         |
| Current portion of operating lease liabilities | —                  | 153,248          | 22,013         |
| <b>Total current liabilities</b>               | <b>1,168,458</b>   | <b>1,132,853</b> | <b>162,724</b> |
| Deferred revenue and customer advances         | 36,037             | 35,527           | 5,103          |
| Deferred tax liabilities                       | —                  | 5,431            | 780            |
| Operating lease liabilities                    | —                  | 433,874          | 62,322         |
| Other non-current liabilities                  | 3,238              | 37,995           | 5,458          |
| <b>Total non-current liabilities</b>           | <b>39,275</b>      | <b>512,827</b>   | <b>73,663</b>  |
| <b>Total liabilities</b>                       | <b>1,207,733</b>   | <b>1,645,680</b> | <b>236,387</b> |

|  | For the Years ended December 31, |             |             |              |
|--|----------------------------------|-------------|-------------|--------------|
|  | 2017<br>RMB                      | 2018<br>RMB | 2019<br>RMB | 2019<br>US\$ |
| Revenues   | 912,166                          | 1,175,618   | 1,443,373   | 207,328      |
| Net income   | 24,771                           | 85,753      | 74,633      | 10,720       |
| Net cash generated from/(used in) operating activities | 263,813                          | 368,546     | (102,228)   | (14,684)     |
| Net cash used in investing activities                  | (46,630)                         | (72,695)    | (102,734)   | (14,757)     |

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

**1. ORGANIZATION AND BASIS OF PRESENTATION (Continued)**

*The VIE arrangements (Continued)*

The revenue-producing assets that are held by the VIEs comprise of property and equipment, student base and franchise agreements and operating lease right-of-use assets. The VIEs contributed an aggregate of 94%, 92% and 94% of the consolidated revenues for the years ended December 31, 2017, 2018 and 2019, respectively, after elimination of inter-company transactions.

As of December 31, 2019, there was no pledge or collateralization of the VIEs’ assets that can only be used to settle obligations of the VIEs. Other than the amounts due to subsidiaries of the Group (which are eliminated upon consolidation), all remaining liabilities of the VIEs are without recourse to the Company. The Company did not provide nor intend to provide financial or other support not previously contractually required to the VIEs during the years presented.

Relevant PRC laws and regulations restrict the VIEs from transferring a portion of its net assets, equivalent to the balance of its paid-in capital and statutory reserves, to the Company in the form of loans and advances or cash dividends. Please refer to Note 14 for disclosure of restricted net assets.

**2. SIGNIFICANT ACCOUNTING POLICIES**

*Basis of presentation*

The consolidated financial statements of the Group have been prepared in accordance with the accounting principles generally accepted in the United States of America (“U.S. GAAP”).

*Principles of consolidation*

The consolidated financial statements include the financial statements of the Company, its subsidiaries, and the VIEs. All significant inter-company transactions and balances between the Company, its subsidiaries and the VIEs have been eliminated upon consolidation. Results of subsidiaries, businesses acquired from third parties and the VIEs are consolidated from the date on which control is obtained by the Company.

*Use of estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses in the consolidated financial statements and accompanying notes. Significant accounting estimates reflected in the Group’s consolidated financial statements include valuation allowance for deferred tax assets, uncertain tax positions, the initial valuation of the assets acquired and liabilities assumed and noncontrolling interest in a business combination, economic lives and impairment of long-lived assets, impairment of goodwill, standalone selling prices of performance obligations of revenue contracts, accounts receivable and contract assets allowances, measurement of right-of-use assets and lease liabilities and share-based compensation. Actual results could differ from those estimates.

*Convenience translation*

Amounts in the United States Dollars (“US\$”) are presented for the convenience of the reader and are translated at the noon buying rate of RMB6.9618 per US\$1.00 on December 31, 2019 in the City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into US\$ at such rate.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Foreign currency*

The functional currency of the Company, its Cayman subsidiaries and Rise HK are the US\$, the functional currency of Edge Franchising and Edge Online Co. Limited are the Hong Kong Dollars (“HK\$”). The Company’s PRC subsidiaries and the VIEs determined their functional currency to be Renminbi (the “RMB”). The Group uses the RMB as its reporting currency.

Each entity in the Group maintains its financial records in its own functional currency. Transactions denominated in foreign currencies are measured at the exchange rates prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are remeasured at the exchange rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost in foreign currency are remeasured using the exchange rates at the dates of the initial transactions. Exchange gains and losses are included in the consolidated statements of (loss)/income.

The Company uses the average exchange rate for the year and the exchange rate at the balance sheet date to translate the operating results and financial position, respectively. Translation differences are recorded in accumulated other comprehensive income, a component of shareholders’ equity.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use, and which have original maturities of three months or less when purchased.

*Restricted cash*

Restricted cash primarily represents deposits held in a designated bank account as security for the interest payments on the Group’s long-term loan; and deposits restricted as to withdrawal or use under government regulations.

In November 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-18, *Statement of Cash Flows* (Topic 230): Restricted Cash, which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts presented in the statement of cash flows. The Group adopted the new standard effective January 1, 2018, using the retrospective transition method. All restricted cash was presented on the face of the consolidated balance sheet as “Restricted cash.”

*Investments*

Short-term investments

The Group’s short-term investments comprise primarily of cash deposits at floating rates based on daily bank deposit rates with original maturities ranging from over three months to six months.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Investments (Continued)*****Long-term investment**

The Group’s long-term investment is an equity investment in unlisted company based in the PRC over which the Group neither has significant influence nor control through investment in common stock or in-substance common stock.

The Group adopted ASC 321, *Investments — Equity Securities* (“ASC 321”) on January 1, 2018, pursuant to which, equity investments with readily determinable fair value, except for those accounted for under the equity method, those that result in consolidation of the investee and certain other investments, are measured at fair value, and any changes in fair value are recognized in earnings. For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”) to estimate fair value using the net asset value per share (or its equivalent) of the investment, the Group elected to use the measurement alternative to measure all its investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

The Group makes a qualitative assessment of whether the equity investment is impaired at each reporting date. If a qualitative assessment indicates that the investment is impaired, the Group has to estimate the investment’s fair value in accordance with the principles of ASC 820. If the fair value is less than the investment’s carrying value, the Group has to recognize an impairment loss in the consolidated statements of (loss)/income equal to the difference between the carrying value and fair value. As of December 31, 2019, the carrying amount of the Group’s equity investment measured at fair value using the measurement alternative was RMB33,000 (US\$4,740), net of accumulated impairment of RMB nil (US\$ nil). There were also no unrealized gains (upward adjustments) or losses (downward adjustments) resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer during the periods presented. For all periods presented, no equity securities were sold.

***Inventories***

Inventories are finished goods and mainly comprised of textbooks and other educational study tools (“course materials”). Course materials are stated at the lower of cost or market. Cost is determined using the weighted average cost method. As of December 31, 2018 and 2019, the Group did not have any provision for inventories.

***Property and equipment***

Property and equipment is stated at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight line basis over the following estimated useful lives:

|                        |  |
|------------------------|--|
| Electronic equipment   | 3 years  |
| Furniture              | 3 - 5 years  |
| Vehicles               | 4 years  |
| Leasehold improvements | Shorter of the lease term or estimated useful life |

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extend the useful lives of property and equipment are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in the consolidated statements of (loss)/income.

Direct costs that are related to the construction of property and equipment, and incurred in connection with bringing the assets to their intended use are capitalized as construction in progress. Construction in progress is transferred to specific property and equipment, and the depreciation of these assets commences when the assets are ready for their intended use.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Segment reporting*

In accordance with ASC 280, *Segment Reporting*, operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (“CODM”), or decision making group, in deciding how to allocate resources and in assessing performance. The Group has only one reportable segment since the Group does not distinguish revenues, costs and expenses by operating segments in its internal reporting, and reports costs and expenses by nature as a whole. The Group’s CODM, who has been identified as the Chief Executive Officer of the Group, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole. The Group does not distinguish among markets or segments for the purpose of internal reports. Substantially all of the Group’s revenues for the years ended December 31, 2017, 2018 and 2019 were generated from the PRC. As of December 31, 2018 and 2019, a majority of the long-lived assets of the Group are located in the PRC, and therefore, no geographical segments are presented.

*Non-controlling interests*

For certain subsidiaries of the VIE, a non-controlling interest is recognized to reflect the portion of their equity which is not attributable, directly or indirectly, to the Group. Consolidated net (loss)/income on the consolidated statements of (loss)/income, includes the net loss attributable to non-controlling interests. The cumulative results of operations attributable to non-controlling interests are recorded as non-controlling interests in the Group’s consolidated balance sheets.

*Goodwill*

The Group assesses goodwill for impairment in accordance with ASC 350-20, *Intangibles—Goodwill and Other: Goodwill* (“ASC 350-20”), which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20.

There was only one reporting unit (that also represented the operating segment) as of December 31, 2018 and 2019, respectively. Goodwill was allocated to the one reporting unit as of December 31, 2018 and 2019, respectively (Note 9). The Group has the option to assess qualitative factors first to determine whether it is necessary to perform the two-step test in accordance with ASC 350-20. If the Group believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the two-step quantitative impairment test described above is required. Otherwise, no further testing is required. In the qualitative assessment, the Group considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations.

In performing the two-step quantitative impairment test, the first step compares the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Group is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Group must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Intangible assets*

Intangible assets with finite lives are carried at cost less accumulated amortization. Amortization of finite-lived intangible assets except for student base is computed using the straight-line method over the estimated useful lives. Student base is amortized using an accelerated pattern based on the estimated student attrition rate of the acquired schools. The estimated useful lives of intangible assets from the date of purchase are as follows:

| <u>Category</u>           | <u>Estimated Useful Life</u>   |
|---------------------------|--|
| Courseware license        | 15 years   |
| Franchise agreements      | 2.5-3 years  |
| Student base              | 3-5 years  |
| Trademarks                | 10-15 years  |
| Purchased software        | 3-5 years  |
| Licensed copyright        | Over the shorter of contractual terms<br>or estimated useful lives of the assets |
| Teaching course materials | 10 years   |

*Impairment of long-lived assets other than goodwill*

The Group evaluates its long-lived assets, including fixed assets and intangible assets with finite lives, for impairment whenever events or changes in circumstances, such as a significant adverse change to market conditions that will impact the future use of the assets, indicate that the carrying amount of an asset may not be fully recoverable. When these events occur, the Group evaluates the recoverability of long-lived assets by comparing the carrying amount of the assets to the future undiscounted cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted cash flows is less than the carrying amount of the assets, the Group recognizes an impairment loss based on the excess of the carrying amount of the assets over their fair value. Fair value is generally determined by discounting the cash flows expected to be generated by the assets, when the market prices are not readily available. For all periods presented, there was no impairment of any of the Group’s long-lived assets.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Business Combinations*

The Group accounts for business combinations using the purchase method of accounting in accordance with ASC 805, *Business Combinations*. The purchase method accounting requires that the consideration transferred be allocated to the assets, including separately identifiable assets and liabilities the Group acquired, based on their estimated fair values. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any non-controlling interests. The excess of (i) the total of cost of acquisition, fair value of the non-controlling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

In a business combination achieved in stages, the Group re-measured the Group’s previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in earnings.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and non-controlling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The group determine discount rates to be used based on the risk inherent in the related activity’s current business model and industry comparisons. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

*Fair value of financial instruments*

Financial instruments include cash and cash equivalents, short-term investments, restricted cash, certain other current assets, long-term investment, accounts payable, long-term loan, customer advances, lease liabilities and certain other current liabilities. For long-term investment, the Group elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. The carrying amounts of remaining financial instruments, except for the long-term loan, approximate their fair values because of their short-term maturities. The carrying amount of the long-term loan approximates its fair value due to the fact that the related interest rate approximates the interest rates currently offered by financial institutions for similar debt instruments of comparable maturities.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Revenue recognition*

On January 1, 2018, the Group adopted ASC 606, *Revenue from contracts with customers* (“ASC 606”) utilizing the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Accordingly, revenues for the years ended December 31, 2018 and 2019 were presented in accordance with ASC 606, and revenues for the year ended December 31, 2017 was not adjusted and continued to be presented in accordance with ASC 605, *Revenue Recognition*. The cumulative effect of adopting ASC 606 resulted in an adjustment to increase the opening balance of accumulated deficit on January 1, 2018 by RMB44,122, with the impact related to the recognition of initial franchise fees. The Group’s accounting policy before January 1, 2018 was to recognize initial franchise fees when franchisees commence operations under the RISE brand or upon the renewal of the franchise agreements. In accordance with ASC 606, the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement, and will therefore, be treated as a single performance obligation. Therefore, initial franchise fees should be recognized over the franchise term, which is generally five years under ASC 606.

The Group’s revenue recognition policies following the adoption of ASC 606 are as follows:

Revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the Group expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Group determines are within the scope of the new revenue recognition accounting standard, the Group performs the following five steps: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Group satisfies a performance obligation. The Group only applies the five-step model to contracts when it is probable that the Group will collect the consideration it is entitled to in exchange for the goods or services transferred to the customer. At contract inception, the Group assesses the goods or services promised within each contract to determine those that represent performance obligations, and assess whether each promised good or service is distinct. The Group then recognize as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. Revenue is recognized net of business tax, value added taxes and tax surcharges.

Contract liabilities relate to contracts where the Group received payments but has not yet satisfied the related performance obligations. The advance consideration received from customers for the services is a contract liability until services are provided to the customer and are presented in “deferred revenue and customer advances” in the consolidated balance sheets.

Contract assets include costs to obtain contracts with customers. Costs to obtain contracts with customers are incremental costs to obtain franchise contracts, which are recorded as prepayment and other current assets, and other non-current assets depending on the estimated life of the underlying franchise contacts.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Revenue recognition (Continued)*

The primary sources of the Group’s revenues are as follows:

(a) Educational programs

Educational programs’ contracts generally consist of two performance obligations, English courses and course materials, which are both capable of being distinct and distinct in the context of the contract. The transaction price is stated in the contract and known at the time of contract inception, therefore no variable consideration exists. The Group may issue promotional coupons to attract enrollment for its courses. The promotional coupons are not issued in conjunction with a concurrent revenue transaction and are for a fixed RMB amount that can only be redeemed to reduce the amount of the tuition fees for future courses. The promotional coupons are accounted for as a reduction of the transaction price and are allocated across all performance obligations unless observable evidence exists that the discount relates to a specific performance obligation or obligations in the contract. Revenue is allocated to each performance obligation based on its standalone selling price. The Group generally determines standalone selling prices based on the prices charged to students. If the standalone selling price is not observable through past transactions, the Group estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

Course fees are collected in advance of the commencement of each course and each course comprises of a fixed amount of classes. The Group uses the student’s daily attendance records, an output measure, to recognize revenue over time as it best depicts the simultaneous consumption and delivery of educational program services. Students are allowed to return course materials if they are unused. However, once the student attends the first class of the respective course, course materials cannot be returned. Therefore, revenue associated with distinct course materials is recognized at the point in time when control transfers to the student, generally when the student attends the first class of the respective course.

According to local education bureau regulations, depending on a school’s location and the amount of classes remaining for a course, the Group may be required to refund course fees for any remaining undelivered classes to students who withdraw from a course. The refund is recorded as a reduction of the related course fees received in advance and has no impact on recognized revenue. Refunds on recognized revenue were insignificant for all periods presented.

To consistent with its management reporting framework, starting during the first quarter of 2019, revenues from educational programs include revenues generated by The Edge, which was previously reported in the Others line item. Revenues from educational programs in prior periods have been adjusted for consistency and comparability (Note 5). The Edge offers admission consulting, academic tutoring and test preparation services for students who intend to study abroad and each service represents an individual performance obligation. For admission consulting services, the Group uses the input method by reference to the consulting hours incurred up to the end of reporting period as a percentage of total estimated hours to recognize revenue over a fixed contract period, which best depicts the Group’s efforts toward satisfying the performance obligation relative to the total expected efforts. For academic tutoring and test preparation services, the Group use students’ attendance records, an output measure, to recognize revenue over time as it best depicts the simultaneous consumption and delivery of such services.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Franchise revenues

Franchise revenues includes non-refundable initial franchise fees and the recurring franchise fees from its franchisees. The initial franchise services to be performed under the franchise agreements to earn the initial franchise fees comprise of (i) authorizing franchisees to use the RISE brand and the Group’s courseware, and (ii) initial setup services, including assisting with site selection and marketing strategy, training of franchisee management and teachers. The Group’s franchise agreements do not include guarantees or other forms of financial assistance, refund provisions or options to repurchase franchises from franchisees. In accordance with the new revenue recognition standard, the initial franchise services are not distinct from the continuing rights offered during the term of the franchise agreement and will therefore be treated as a single performance obligation. As such, beginning in January 2018, initial franchise fees are deferred and recorded as “deferred revenue and customer advances”, and are recognized over the franchise term as the performance obligation is satisfied, which is generally five years. The Group also receives sales-based recurring franchise fees from its franchisees, which include a fixed percentage of the franchisees’ course fees and proceeds from the sale of related course materials. The recurring franchise fees are recognized at the time the underlying franchisees’ sale of services occur.

(c) Other revenues

Other revenues comprise mainly of the provision of overseas and domestic study tour services. The Group determined the overseas study tours contract contains a single performance obligation and the Group is the principal in providing overseas study tours services as it controls such services before the services are transferred to the customer. Therefore, the Group recognizes study tours revenue on a gross basis. The Group recognize revenue over the service period of the study tour, which is, generally around two to three weeks, as it best depicts the simultaneous consumption and delivery of overseas study tours services.

**Advertising expenditures**

Advertising costs are expensed when incurred and are included in selling expenses in the consolidated statements of (loss)/income. For the years ended December 31, 2017, 2018 and 2019, advertising expenses were approximately RMB80,475, RMB136,323 and RMB177,378 (US\$25,479), respectively.

**Leases**

The Group adopted ASU No. 2016-02, *Leases* (Topic 842) (“ASC 842”) from January 1, 2019 by using the modified retrospective method and did not restate the comparable periods. The Group has elected the package of practical expedients, which allows the Group not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. The Group elected the short-term lease exemption for all contracts with lease terms of 12 months or less. The Group have lease agreements with lease and non-lease components, which are generally accounted for separately.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Leases (Continued)*

The Group determines if an arrangement is a lease or contains a lease at lease inception. For operating leases, the Group recognizes a right-of-use (“ROU”) asset and a lease liability based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. As most of the Group’s leases do not provide an implicit rate, the Group estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The ROU assets also include any lease payments made, net of lease incentives. Lease expense is recorded on a straight-line basis over the lease term.

Upon adoption, the Group recognized ROU assets of RMB601,610 and total lease liabilities (including current and non-current) RMB610,500 for operating leases as of January 1, 2019. The impact of adopting ASC 842 on the Group’s opening retained earnings, current year net income and current year cash flow was insignificant. As of December 31, 2019, the Group recognized operating lease ROU assets of RMB610,323 (US\$87,667) and total lease liabilities RMB622,215 (US\$89,374), including current portion of RMB157,911 (US\$22,682) for operating leases.

The Group’s operating leases mainly related to offices and classroom facilities.

The components of operating lease costs were as follows:

|                            | For the year ended<br>December 31, 2019 |               |
|----------------------------|---|---------------|
|                            | RMB                                     | US\$          |
| Operating Lease Costs:     |   |               |
| Fixed                      | 193,665                                 | 27,818        |
| Short-term                 | 859                                     | 123           |
| <b>Total<sup>(1)</sup></b> | <b>194,524</b>                          | <b>27,941</b> |

1) Variable operating lease cost was immaterial for the year ended December 31, 2019.

Supplemental cash flow information related to operating leases was as follows:

|   | For the year ended<br>December 31, 2019 |        |
|---|---|--------|
|   | RMB                                     | US\$   |
| Cash paid for amounts included in the measurement of lease liabilities: | 191,493                                 | 27,506 |
| Right-of-use assets obtained in exchange for lease obligations:         | 176,026                                 | 25,285 |

The aggregate future lease payments for operating leases as of December 31, 2019 were as follows:

|   | RMB            | US\$           |
|---|----------------|----------------|
| 2020                                      | 184,225        | 26,462         |
| 2021                                      | 155,028        | 22,268         |
| 2022                                      | 133,965        | 19,243         |
| 2023                                      | 97,654         | 14,027         |
| 2024                                      | 48,468         | 6,962          |
| Thereafter                                | 85,290         | 12,251         |
| <b>Total lease payments</b>               | <b>704,630</b> | <b>101,213</b> |
| Less: Imputed interest                    | 82,415         | 11,839         |
| <b>Present value of lease liabilities</b> | <b>622,215</b> | <b>89,374</b>  |

As of December 31, 2019, the weighted average remaining lease term was 5.0 years and weighted average discount rate was 4.90% for the Group’s operating leases.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*(Loss)/income per share*

In accordance with ASC 260, *Earnings Per Share*, basic (loss)/income per share is computed by dividing net (loss)/income attributable to the Company by the weighted average number of ordinary shares outstanding during the period. Diluted (loss)/income per share is calculated by dividing net (loss)/income attributable to the Company as adjusted for the effect of dilutive ordinary equivalent shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Share options with market conditions, performance conditions, or any combination thereof, are considered contingently issuable shares and are included in the computation of diluted (loss)/income per share to the extent that market and performance conditions are met such that the share options are exercisable at the end of the reporting period, assuming it was the end of the contingency period. Ordinary equivalent shares consist of the ordinary shares issuable upon the conversion of the share options, using the treasury stock method. Ordinary equivalent shares are excluded from the computation of diluted per share if their effects would be anti-dilutive.

*Share-based compensation*

The Group applies ASC 718, *Compensation — Stock Compensation* (“ASC 718”), to account for its employee share-based payments. In accordance with ASC 718, the Group determines whether an award should be classified and accounted for as a liability award or an equity award. All the Group’s share-based awards to employees were classified as equity awards.

In accordance with ASC 718, the Group recognizes share-based compensation cost for equity awards to employees with a performance condition based on the probable outcome of that performance condition — compensation cost is recognized if it is probable that the performance condition will be achieved and shall not be recognized if it is not probable that the performance condition will be achieved.

In accordance with ASC 718, the effect of a market condition is reflected in the grant-date fair value of the granted equity awards. The Group recognizes share-based compensation cost for equity awards with a market condition provided that the requisite service is rendered, regardless of when, if ever, the market condition is satisfied.

A change in any of the terms or conditions of the awards is accounted for as a modification of the award. When the vesting conditions (or other terms) of the equity awards granted to employees are modified, the Group first determines on the modification date whether the original vesting conditions were expected to be satisfied, regardless of the entity’s policy election for accounting for forfeitures. If the original vesting conditions are not expected to be satisfied, the grant-date fair value of the original equity awards are ignored, and the fair value of the equity award measured at the modification date is recognized if the modified award ultimately vests. When a vesting condition that is probable of achievement is modified and the new vesting condition also is probable of achievement, the compensation cost to be recognized if either the original vesting condition or the new vesting condition is achieved cannot be less than the grant-date fair value of the original award. That compensation cost is recognized if either the original or modified vesting condition is achieved. Cancellation of the awards accompanied by the concurrent grant of a replacement award is also accounted for as a modification of the terms of the cancelled awards. Therefore, incremental compensation cost shall be measured as the excess of the fair value of the replacement award or other valuable consideration over the fair value of the cancelled award at the cancellation date.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Share-based compensation (Continued)*

Incremental compensation cost is measured as the excess, if any, of the fair value of the modified award over the fair value of the original award immediately before its terms are modified, measured based on the fair value of the awards and other pertinent factors at the modification date. For vested awards, the Group recognizes incremental compensation cost in the period the modification occurs. For unvested awards, the Group recognizes over the remaining requisite service period, the sum of the incremental compensation cost and the remaining unrecognized compensation cost for the original award on the modification date. If the fair value of the modified award is lower than the fair value of the original award immediately before modification, the minimum compensation cost the Group recognizes is the cost of the original award.

The Group uses the accelerated method for all awards granted with graded vesting service conditions, and the straight-line method for awards granted with non-graded vesting service conditions. The Group accounts for forfeitures as they occur. The Group, with the assistance of an independent third party valuation firm, determined the fair value of the stock options granted to employees. The binomial option pricing model and Monte Carlo simulation model were applied in determining the estimated fair value of the options granted to employees.

*Income taxes*

The Group follows the liability method of accounting for income taxes in accordance with ASC 740, *Income Taxes* (“ASC 740”). Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect in the period in which the differences are expected to reverse. The Group records a valuation allowance to offset deferred tax assets if based on the weight of available evidence, it is more-likely-than-not that some portion, or all, of the deferred tax assets will not be realized. The effect on deferred taxes of a change in tax rate is recognized in tax expense in the period that includes the enactment date of the change in tax rate.

The Group accounted for uncertainties in income taxes in accordance with ASC 740. Interest and penalties arising from underpayment of income taxes shall be computed in accordance with the related PRC tax law. The amount of interest expense is computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Interest and penalties recognized in accordance with ASC 740 are classified in the consolidated statements of (loss)/ income as income tax expense.

In accordance with the provisions of ASC 740, the Group recognizes in its consolidated financial statements the impact of a tax position if a tax return position or future tax position is “more likely than not” to prevail based on the facts and technical merits of the position. Tax positions that meet the “more likely than not” recognition threshold are measured at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement. The Group’s estimated liability for unrecognized tax benefits which is included in “other non-current liabilities” on the consolidated balance sheets is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, changes and/or developments with respect to tax audits, and expiration of the statute of limitations. The actual benefits ultimately realized may differ from the Group’s estimates. As each audit is concluded, adjustments, if any, are recorded in the Group’s consolidated financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require the Group to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Government subsidies*

Government subsidies primarily consist of financial subsidies received from local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. Government subsidies of non-operating nature and with no further conditions to be met are recorded as non-operating income in “Other income, net” of the consolidated statements of (loss)/income when received.

*Other income, net*

The Group’s depository bank of its American depository receipt (“ADR”) program may make contributions to the Group provided certain conditions are met. For the years ended December 31, 2017, 2018 and 2019, the Group received nil, RMB10,960 and nil from the depository bank, and recognized as nil, RMB10,960 and nil as other income, net of the consolidated statements of (loss)/income.

*Comprehensive (loss)/income*

Comprehensive (loss)/income is defined as the changes in equity of the Group during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Among other disclosures, ASC 220, *Comprehensive Income*, requires that all items that are required to be recognized under current accounting standards as components of comprehensive (loss)/income be reported in a financial statement that is displayed with the same prominence as other financial statements. For each of the periods presented, the Group’s comprehensive (loss)/income includes net (loss)/income and foreign currency translation adjustments, and is presented in the consolidated statements of comprehensive (loss)/income.

*Employee benefit expenses*

All eligible employees of the Group are entitled to staff welfare benefits including medical care, welfare subsidies, unemployment insurance and pension benefits through a PRC government-mandated multi-employer defined contribution plan. The Group is required to accrue for these benefits based on certain percentages of the qualified employees’ salaries. The Group is required to make contributions to the plans out of the amounts accrued. The PRC government is responsible for the medical benefits and the pension liability to be paid to these employees and the Group’s obligations are limited to the amounts contributed. The Group has no further payment obligations once the contributions have been paid. The Group recorded employee benefit expenses of RMB62,934, RMB87,544 and RMB107,747 (US\$15,477) for the years ended December 31, 2017, 2018 and 2019, respectively.

*Treasury shares*

In November 2018, the Board of Directors approved a share repurchase plan (“2018 repurchase plan”). The Company accounts for treasury shares using the cost method. Under this method, the cost incurred to purchase the shares is initially recorded in the “Treasury Shares” line item in the consolidated balance sheets. Upon retirement, the ordinary shares account will be debited only for the aggregate par value of the retired shares, and the excess of the acquisition cost of treasury shares over the aggregate par value is allocated to the additional paid-in capital. As of December 31, 2019, all treasury shares were fully retired.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Recent accounting pronouncements*

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”) which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. The Group does not expect any material impact on its consolidated financial statements as a result of adopting the new standard.

In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”), which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step two to measure the impairment loss. The guidance is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019. Early adoption is permitted for all entities for annual and interim goodwill impairment testing dates on or after January 1, 2017. The guidance should be applied on a prospective basis. The Group does not expect any impact on its consolidated financial statements as a result of adopting the new standard.

In August 2018, FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). ASU 2018-13 revises fair value disclosures, including requiring additional information on changes in unrealized gains and losses and significant unobservable inputs as it relates to Level 3 fair value measurements. The revised guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this update. The Group does not expect any material impact on its consolidated financial statements as a result of adopting the new standard.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

3. CONCENTRATION OF RISKS

*Business, customer, political, social and economic risks*

The Group participates in a dynamic industry and believes that changes in any of the following areas could have a material adverse effect on the Group’s future financial position, results of operations or cash flows: changes in the overall demand for services; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in certain strategic relationships or customer relationships; regulatory considerations; and risks associated with the Group’s ability to attract and retain employees necessary to support its growth. The Group’s operations could be also adversely affected by significant political, economic and social uncertainties in the PRC. No single customer or supplier accounted for more than 10% of revenue or costs of revenues for the each of three years in the period ended December 31, 2019.

*Concentration of credit risk*

Financial instruments that potentially subject the Group to significant concentration of credit risk consist primarily of cash and cash equivalents, and restricted cash. As of December 31, 2019, substantially all of the Group’s cash and cash equivalents, and restricted cash were deposited with financial institutions with high-credit ratings and quality.

PRC state-owned banks, such as Bank of China, are subject to a series of risk control regulatory standards, and PRC bank regulatory authorities are empowered to take over the operation and management when any of those banks faces a material credit crisis. The Group does not foresee substantial credit risk with respect to cash and cash equivalents, restricted cash and short-term investments held at the PRC state-owned banks. Meanwhile, China does not have an official deposit insurance program, nor does it have an agency similar to what was the Federal Deposit Insurance Corporation (FDIC) in the U.S. In the event of bankruptcy of one of the financial institutions in which the Group has deposits or investments, it may be unlikely to claim its deposits or investments back in full. The Group selected reputable international financial institutions with high rating rates to place its foreign currencies. The Group regularly monitors the rating of the international financial institutions to avoid any potential defaults. There has been no recent history of default in relation to these financial institutions.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

3. CONCENTRATION OF RISKS (Continued)

*Interest rate risk*

The Group is exposed to interest rate risk related to its outstanding long-term loan (Note 11). The interest rate of the long-term loan was mainly based on the three month London Interbank Offered Rate and a pre-determined margin. A hypothetical 1% increase or decrease in annual interest rates would increase or decrease interest expense by approximately RMB5,173 (US\$743) per year based on the Group’s debt level at December 31, 2019.

*Foreign currency exchange rate risk*

From July 21, 2005, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. For RMB against US\$, there was depreciation of approximately 6.7% and appreciation of 5.7% and 1.3% during the years ended December 31, 2017, 2018 and 2019. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the US\$ in the future.

To the extent that the Group needs to convert US\$ into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against US\$ would have an adverse effect on the RMB amount the Group would receive from the conversion. Conversely, if the Group decides to convert RMB into US\$ for the purpose of making payments for dividends on ordinary shares, strategic acquisitions or investments or other business purposes, appreciation of US\$ against RMB would have a negative effect on the US\$ amount available to the Group. In addition, a significant depreciation of the RMB against the US\$ may significantly reduce the US\$ equivalent of the Group’s earnings or losses.

*Currency convertibility risk*

The Group transacts all of its business in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People’s Bank of China (the “PBOC”). However, the unification of the exchange rates does not imply that the RMB may be readily convertible into US\$ or other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers’ invoices, shipping documents and signed contracts. The Group’s cash and cash equivalents, and restricted cash denominated in RMB amounted to RMB970,936 (US\$139,466) as of December 31, 2019.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

## 4. BUSINESS COMBINATION

*Edge*

On November 1, 2017, the Group acquired 100% equity interest of Edge Franchising, a leading Hong Kong-based admissions consulting company specializing in overseas boarding school and college placement, and certain fixed assets, intellectual properties, material contracts and key employees of the educational consulting business (collectively referred to as “Edge Acquiree”, or “Edge Business”) from a seller in which a managing director of Bain Capital Education IV Cayman Limited (“Bain Capital Education IV”) is a director and minority shareholder. The acquisition is expected to complement the Group’s existing business and achieve significant synergies.

Details of the purchase consideration are as follows:

- (i) Cash consideration of RMB16,769 (“Cash Consideration”).
- (ii) In accordance with the sale and purchase agreement, the Company shall issue to the selling shareholder 216,021 ordinary shares. As of the acquisition date, the Group recorded RMB9,211 (“Share Consideration”) in the “Accrued expenses and other current liabilities”.

The Cash Consideration and Share Consideration were settled on January 2, 2018.

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of November 1, 2017, the date of acquisition:

|   | RMB      |
|---|----------|
| Purchase consideration  | 25,980   |
| Net assets acquired, excluding intangible assets and the related deferred tax liabilities | 2,133    |
| Intangible assets   | 4,994    |
| Trademark   | 1,693    |
| Student base  | 2,962    |
| Franchise agreements  | 339      |
| Deferred tax liabilities  | (1,235)  |
| Deferred revenue and customer advances  | (10,663) |
| Goodwill  | 30,751   |

Included in the goodwill of RMB30,261 recognized on the acquisition date is the expected synergies from combining operations of the Acquiree and the Group which does not qualify for separate recognition. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company recognized RMB889 of acquisition related costs which were included in general and administrative expenses in the year ended December 31, 2017.

The actual results of operation after the acquisition date and pro-forma results of operations for this acquisition have not been presented because the effects of this acquisition were insignificant.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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## 4. BUSINESS COMBINATION (Continued)

*Shijiazhuang*

On July 1, 2019, the Group acquired a 51% equity interest in 7 learning centers in Shijiazhuang (“Shijiazhuang business”), certain fixed assets, student contracts and key employees of the educational consulting business from a franchisee of the Group. The acquisition is expected to complement the Group’s existing business and achieve significant synergies.

Total consideration was RMB44,061(US\$6,329) in cash, of which RMB9,606(US\$1,380) was unpaid as of December 31, 2019.

The Group has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of July 1, 2019, the date of acquisition:

|   | RMB      | US\$     |
|---|----------|----------|
| Purchase consideration  | 44,061   | 6,329    |
| Net assets acquired, excluding intangible assets and the related deferred tax liabilities | (83,813) | (12,039) |
| Intangible assets   | 15,800   | 2,270    |
| Student base  | 15,800   | 2,270    |
| Deferred tax liabilities  | (4,742)  | (681)    |
| Non-controlling interest  | (33,866) | (4,865)  |
| Goodwill  | 150,682  | 21,644   |

The non-controlling interests on acquisition date was measured by applying the equity percentage held by minority shareholders and a discount for lack of control premium to the fair value of the acquired business of Shijiazhuang, which was determined using an income approach. The significant inputs were revenue growth rates, gross margin rates, weighted-average cost of capital, discount rate and terminal values.

Goodwill recognized on the acquisition date is the expected synergies from combining operations of Shijiazhuang and the Group, which does not qualify for separate recognition. None of the goodwill recognized is expected to be deductible for income tax purposes.

The Group recognized RMB464 and RMB83 (US\$12) of acquisition related costs which were included in general and administrative expenses for the years ended December 31, 2018 and 2019, respectively.

The information of pro forma revenue and net loss for the year ended December 31, 2018 is not available and the cost to develop it would be excessive. The unaudited pro forma information for the year ended December 31, 2019 set forth below gives effect to the acquisition as if it had occurred at the beginning of the period. The pro forma results have been calculated after applying the Group’s accounting policies and including adjustments primarily related to the amortization of acquired intangible assets, and income tax effects, as applicable. The pro forma information does not include any impact of transaction synergies and is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been occurred had the acquisition been consummated as of that time or that may result in the future:

|            | For the year ended December 31, 2019 |             |             |
|------------|--------------------------------------|-------------|-------------|
|            | pro forma<br>(unaudited)             | As reported | As reported |
|            | RMB                                  | RMB         | US\$        |
| Revenues   | 1,555,302                            | 1,529,447   | 219,691     |
| Net income | 152,669                              | 148,100     | 21,273      |

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

4. BUSINESS COMBINATION (Continued)

*Changping*

On November 1, 2019, the Group acquired certain fixed assets, intellectual properties, material contracts and key employees of a franchised learning center in Changping (“Changping”) from a franchisee of the Group for a total cash consideration of RMB12,669 (US\$1,820), of which RMB8,469 (US\$1,216) was unpaid as of December 31, 2019.

Identifiable intangible assets acquired include student base of RMB4,500 (US\$646). Goodwill recognized on the acquisition date is not tax deductible and amounted to RMB18,986 (US\$2,727); and represents the expected synergies from combining the operations of Changping and the Group, which does not qualify for separate recognition.

The actual results of operation after the acquisition date and pro-forma results of operations for this acquisition have not been presented because the effects of this acquisition were insignificant.

5. REVENUES

|                         | For the year ended December 31, |             |             |              |
|-------------------------|---------------------------------|-------------|-------------|--------------|
|                         | 2017<br>RMB                     | 2018<br>RMB | 2019<br>RMB | 2019<br>US\$ |
| Educational programs(a) | 835,065                         | 1,097,619   | 1,324,654   | 190,274      |
| Franchise revenues(b)   | 100,013                         | 125,341     | 156,509     | 22,481       |
| Others                  | 34,197                          | 48,928      | 48,284      | 6,936        |
|                         | 969,275                         | 1,271,888   | 1,529,447   | 219,691      |

- (a) To consistent with its management reporting framework, starting from the first quarter of 2019, revenues from educational programs include revenues generated by The Edge, which was previously reported in the Others line item (Note 2). Revenues from educational programs in previous years have been adjusted for consistency and comparability.
- (b) Initial franchise fees amounted to RMB23,302, RMB19,904 and RMB20,569 (US\$2,955), and recurring franchise fees amounted to RMB76,711, RMB105,310 and RMB135,940 (US\$19,526) for the years ended December 31, 2017, 2018 and 2019, respectively.

The following table provides information about contract assets and liabilities from contracts with customers:

|  | As at December 31, |             |              |
|--|--------------------|-------------|--------------|
|  | 2018<br>RMB        | 2019<br>RMB | 2019<br>US\$ |
| Cost to obtain contract with customers-current     | 551                | 1,091       | 157          |
| Cost to obtain contract with customers-non current | 1,274              | 3,026       | 435          |
| Contract liabilities-current                       | 959,363            | 702,737     | 100,942      |
| Contract liabilities-non current                   | 36,037             | 39,397      | 5,659        |

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

## 5. REVENUES (Continued)

During the year of 2019, the contract liabilities balance included decreases for revenues recognized during the period and increases related to new enrollments. For the year ended December 31, 2019, revenue recognized from amounts included in contract liabilities at the beginning of the period was RMB947,077 (US\$136,039). As of December 31, 2019, the remaining performance obligations related to educational program services that are partially or wholly unsatisfied are expected to be satisfied within one year, and other remaining performance obligations related to franchise services that are partially or wholly unsatisfied which will be satisfied from one to five years.

## 6. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following:

|   | As at December 31, |             |              |
|---|--------------------|-------------|--------------|
|   | 2018<br>RMB        | 2019<br>RMB | 2019<br>US\$ |
| Prepayments to suppliers                                    | 27,786             | 15,799      | 2,269        |
| Prepaid rental expense                                      | 14,701             | 5,748       | 826          |
| Staff advances  | 2,306              | 1,586       | 228          |
| Deposits  | 12,679             | 18,241      | 2,620        |
| Prepaid taxes and surcharges                                | 3,930              | 4,513       | 648          |
| Current portion of costs to obtain contracts with customers | 551                | 1,091       | 157          |
| Other receivables   | 9,584              | 4,442       | 638          |
|   | 71,537             | 51,420      | 7,386        |

## 7. PROPERTY AND EQUIPMENT, NET

|                                | As at December 31, |             |              |
|--------------------------------|--------------------|-------------|--------------|
|                                | 2018<br>RMB        | 2019<br>RMB | 2019<br>US\$ |
| Electronic equipment           | 50,278             | 60,737      | 8,724        |
| Furniture                      | 10,649             | 11,738      | 1,686        |
| Vehicles                       | 1,168              | 1,168       | 168          |
| Leasehold improvements         | 237,256            | 277,042     | 39,795       |
|                                | 299,351            | 350,685     | 50,373       |
| Less: accumulated depreciation | 170,939            | 213,345     | 30,645       |
| Property and equipment, net    | 128,412            | 137,340     | 19,728       |

Depreciation expense for the years ended December 31, 2017, 2018 and 2019 was RMB29,246, RMB36,026 and RMB45,375 (US\$6,518), respectively.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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**8. INTANGIBLE ASSETS, NET**

The Group’s intangible assets were all acquired and consisted of the following:

|                           | As at December 31, |           |          |
|---------------------------|--------------------|-----------|----------|
|                           | 2018               | 2019      | 2019     |
|                           | RMB                | RMB       | US\$     |
| Costs:                    |                    |           |          |
| Courseware license        | 211,433            | 214,087   | 30,752   |
| Franchise agreements      | 61,151             | 62,158    | 8,928    |
| Student base              | 97,239             | 116,828   | 16,781   |
| Trademarks                | 49,705             | 50,338    | 7,231    |
| Purchased software        | 21,309             | 26,514    | 3,808    |
| Teaching course materials | 14,022             | 21,115    | 3,033    |
| Licensed copyright        | —                  | 2,840     | 408      |
|                           | 454,859            | 493,880   | 70,941   |
| Accumulated amortization: |                    |           |          |
| Courseware license        | (74,002)           | (89,094)  | (12,798) |
| Franchise agreements      | (60,937)           | (61,221)  | (8,794)  |
| Student base              | (94,480)           | (99,101)  | (14,235) |
| Trademarks                | (16,984)           | (20,572)  | (2,955)  |
| Purchased software        | (6,008)            | (7,644)   | (1,098)  |
| Teaching course materials | (4,391)            | (5,902)   | (847)    |
| Licensed copyright        | —                  | —         | —        |
|                           | (256,802)          | (283,534) | (40,727) |
| Net carrying amount       | 198,057            | 210,346   | 30,214   |

The Group recorded amortization expense of RMB20,465, RMB22,199 and RMB24,646 (US\$3,540) for the years ended December 31, 2017, 2018 and 2019, respectively.

As of December 31, 2019, estimated amortization expense of the existing intangible assets for each of the next five years is RMB29,068, RMB27,959, RMB25,094, RMB23,400, and RMB21,132, respectively.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
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## 9. GOODWILL

|   |         |
|---|---------|
| Balance as of January 1, 2018             | 475,732 |
| Goodwill acquired in business combination | 884     |
| Impairment losses                         | —       |
| Foreign exchange effect                   | 15,353  |
| Balance as of December 31, 2018           | 491,969 |
| Goodwill acquired in business combination | 169,668 |
| Impairment losses                         | —       |
| Foreign exchange effect                   | 3,779   |
| Balance as of December 31, 2019           | 665,416 |
| Balance as of December 31, 2019 (US\$)    | 95,581  |

The Group’s goodwill is mainly attributable to the acquisitions in 2013, 2017 and 2019 (Note 4). Goodwill is not tax deductible.

For the years ended December 31, 2018 and 2019, respectively, the Group performed a qualitative assessment based on the requirements of ASC 350-20. The Group evaluated all relevant factors, weighed all factors in their entirety and concluded that it was not more-likely-than-not that the fair value of the reporting unit was less than its respective carrying amount. Therefore, further impairment testing on goodwill was unnecessary as of December 31, 2018 and 2019, respectively.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

**10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other liabilities consisted of the following:

|  | As at December 31, |             |              |
|--|--------------------|-------------|--------------|
|  | 2018<br>RMB        | 2019<br>RMB | 2019<br>US\$ |
| Payroll and welfare payable                    | 80,490             | 106,429     | 15,288       |
| Taxes payable                                  | 6,778              | 17,584      | 2,526        |
| Interest payable                               | 1,605              | 672         | 97           |
| Accrued other operating expenses               | 54,223             | 24,653      | 3,541        |
| Accrual for purchase of property and equipment | 8,298              | 10,771      | 1,547        |
| Payable for acquisition consideration (Note 4) | —                  | 18,075      | 2,596        |
| Others   | 8,488              | 24,624      | 3,538        |
|  | 159,882            | 202,808     | 29,133       |

**11. LONG-TERM LOAN**

In July 2016, the Group entered into a loan facility agreement (“Original Facility Agreement”), pursuant to which the Group is entitled to draw down up to US\$55,000. The maturity date of the loan facility is five years from the drawdown date. In September 2017, an amendment facility agreement (“Amendment Facility Agreement”) was entered, pursuant to which the maturity date was revised to five years from the amendment date and the aggregate of the facility commitments was amended to US\$110,000. No other terms or conditions were changed. According to ASC 470-50, the Group concluded that the change resulted in debt modification rather than an extinguishment of debt. As of December 31, 2017, the Group has drawn down the facility in full and US\$10,000 principal was repaid.

The Group has repaid principal of US\$22,000 and US\$35,750 as of December 31, 2018 and 2019 respectively. The amount repayable within twelve months was reclassified to current liabilities. The interest rate of the facility is a flexible interest rate from 2.00% to 3.50% per annum, depending on the leverage ratio of Cayman, plus London Interbank Offered Rate. The interest rate for the outstanding loan as of December 31, 2019, was approximately 3.90%.

Arrangement fee of US\$4,708 was incurred to establish the loan facility, and has been capitalized on the consolidated balance sheet to offset against loan liability and accounted for under the effective interest rate method.

**RISE EDUCATION CAYMAN LTD****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)**

**11. LONG-TERM LOAN (Continued)**

Management assessed no breach of its loan covenants for the year ended December 31, 2019. The loan facility is guaranteed by Rise IP, Rise HK, the WFOE and VIE. Further, the ordinary shares of certain subsidiaries of the Group were pledged as collateral for the loan facility. In addition, the Group maintained deposits held in a designated bank account as security for interest payments amounting to US\$1,452 (equivalent to RMB10,108) as of December 31, 2019.

As of December 31, 2019, the loan principal will be due according to the following schedule:

|                    | <u>US\$</u> |
|--------------------|-------------|
| September 12, 2020 | 19,250      |
| September 12, 2021 | 24,750      |
| September 12, 2022 | 30,250      |
|                    | 74,250      |

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

## 12. INCOME TAXES

*Cayman Islands*

Under the current laws of the Cayman Islands, the Company and its Cayman subsidiaries are not subject to tax on income or capital gain. Additionally, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

*Hong Kong*

Rise HK and Edge Franchising are incorporated in Hong Kong and are subject to Hong Kong Profits Tax, which is currently imposed at the rate of 16.5%, with half-rate of 8.25% may apply for the first HK\$2,000 of assessable profits for years of assessment beginning on or after April 1, 2018.

*PRC*

Effective from January 1, 2008, the PRC’s statutory, Enterprise Income Tax (“EIT”) rate is 25%. Preferential EIT rate at 15% is available for entities qualified as “High and New Technology Enterprises” (“HNTE”). The HNTE certificate is effective for a period of three years.

Dividends, interests, rent or royalties payable by the Group’s PRC subsidiaries, to non-PRC resident enterprises, and proceeds from any such non-resident enterprise investor’s disposition of assets (after deducting the net value of such assets) shall be subject to 10% EIT, namely withholding tax, unless the respective non-PRC resident enterprise’s jurisdiction of incorporation has a tax treaty or arrangements with China that provides for a reduced withholding tax rate or an exemption from withholding tax.

(Loss)/income before income taxes consists of:

|         | For the year ended December 31, |         |         |        |
|---------|---------------------------------|---------|---------|--------|
|         | 2017                            | 2018    | 2019    | 2019   |
|         | RMB                             | RMB     | RMB     | US\$   |
| PRC     | 14,121                          | 189,760 | 181,457 | 26,065 |
| Non-PRC | (14,797)                        | 24,439  | 33,800  | 4,855  |
|         | (676)                           | 214,199 | 215,257 | 30,920 |

The current and deferred portions of income tax expense included in the consolidated statements of (loss)/income are as follows:

|                             | For the year ended December 31, |          |          |          |
|-----------------------------|---------------------------------|----------|----------|----------|
|                             | 2017                            | 2018     | 2019     | 2019     |
|                             | RMB                             | RMB      | RMB      | US\$     |
| Current income tax expense  | (51,773)                        | (65,023) | (64,222) | (9,225)  |
| Deferred income tax expense | (1,151)                         | (6,740)  | (6,475)  | (930)    |
| Income tax expense          | (52,924)                        | (71,763) | (70,697) | (10,155) |

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

12. INCOME TAXES (Continued)

The reconciliation of the income tax expense for the years ended December 31, 2017, 2018 and 2019 is as follows:

|  | For the year ended December 31, |             |             |              |
|--|---------------------------------|-------------|-------------|--------------|
|  | 2017<br>RMB                     | 2018<br>RMB | 2019<br>RMB | 2019<br>US\$ |
| (Loss)/ income before income tax   | (676)                           | 214,199     | 215,257     | 30,920       |
| Income tax benefit/(expense) computed at the PRC statutory tax rate of 25% | 169                             | (53,550)    | (53,815)    | (7,730)      |
| Effect of different tax rates in different jurisdictions                   | (8,175)                         | 2,291       | (2,286)     | (328)        |
| Effect of preferential tax rates   | —                               | —           | 8,444       | 1,213        |
| Effect of tax rate change  | —                               | —           | (4,483)     | (644)        |
| Non-deductible expenses and others   | (26,482)                        | (15,069)    | (19,438)    | (2,792)      |
| Outside basis difference on investment in WFOE                             | (4,446)                         | (6,233)     | (9,872)     | (1,418)      |
| PRC royalty withholding tax  | (6,950)                         | (6,080)     | (1,027)     | (148)        |
| Changes in valuation allowance   | (7,040)                         | 6,878       | 11,780      | 1,692        |
| Income tax expense   | (52,924)                        | (71,763)    | (70,697)    | (10,155)     |

The significant components of the Group’s deferred tax assets and liabilities as of December 31, 2018 and 2019 are as follows:

|   | As at December 31, |             |              |
|---|--------------------|-------------|--------------|
|   | 2018<br>RMB        | 2019<br>RMB | 2019<br>US\$ |
| <b>Deferred tax assets:</b>                             |                    |             |              |
| Accrued expenses  | 6,680              | 6,182       | 888          |
| Tax loss carry forward                                  | 24,214             | 17,075      | 2,453        |
| Revenue recognition                                     | 12,749             | 5,031       | 723          |
| Others  | 992                | 846         | 122          |
| Less: Valuation allowance                               | (37,311)           | (16,850)    | (2,420)      |
|   | 7,324              | 12,284      | 1,766        |
| <b>Deferred tax liabilities:</b>                        |                    |             |              |
| Long-lived assets arising from acquisitions             | 844                | 7,239       | 1,040        |
| Outside basis difference on investment in WFOE          | 13,853             | 23,725      | 3,408        |
| Others  | 455                | 1,410       | 204          |
|   | 15,152             | 32,374      | 4,652        |
| <b>Presentation in the consolidated balance sheets:</b> |                    |             |              |
| Deferred tax assets                                     | 6,713              | 11,026      | 1,584        |
| Deferred tax liabilities                                | (14,541)           | (31,116)    | (4,470)      |
| Net deferred tax liabilities                            | (7,828)            | (20,090)    | (2,886)      |

**RISE EDUCATION CAYMAN LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)**

**12. INCOME TAXES (Continued)**

The Group operates through several subsidiaries and the VIEs and valuation allowances are considered for each of the subsidiaries and the VIEs on an individual basis. The Group recorded a valuation allowance against deferred tax assets of those subsidiaries and the VIEs that are individually in a cumulative loss as of December 31, 2018 and 2019. In making such determination, the Group evaluates a variety of factors including the Group’s operating history, accumulated deficit, existence of taxable temporary differences and reversal periods.

As of December 31, 2019, the aggregate undistributed earnings from the Company’s WFOE and VIEs that are available for distribution are RMB488,462 (US\$70,163). The Company has considered its operational funding needs, future development initiatives and its dividend distribution plan, and is permanently reinvesting all but RMB237,252 (US\$34,079). Determination of the amount of unrecognized deferred tax liability related to the earnings that are indefinitely reinvested is not practical because of the various associated income taxes including withholding income tax that would be payable upon the distribution of those amounts.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

**12. INCOME TAXES (Continued)**

As of December 31, 2018 and 2019, the Group had taxable losses of RMB97,192 and RMB69,861 (US\$10,035), respectively, derived from entities in the PRC and Hong Kong, which can be carried forward per tax regulation to offset future net profit for income tax purposes. The PRC taxable losses as of December 31, 2019 will expire from 2020 to 2024 if not utilized. The Hong Kong taxable losses as of December 31, 2019 can be utilized indefinitely.

As of December 31, 2018 and 2019, the Group had unrecognized tax benefits of RMB7,613 and RMB29,554 (US\$4,245), respectively, of which RMB1,389 and nil, respectively were offset against the deferred tax assets on tax losses carry forward, and the remaining amount of RMB6,224 and RMB29,554 (US\$4,245), respectively which if ultimately recognized, would impact the effective tax rate. The Group planned to settle unrecognized tax benefits of RMB2,101 (US\$302) in cash in the next 12 months, and such amount was classified as income taxes payable. It is possible that the amount of unrecognized benefits will further change in the next 12 months; however, an estimate of the range of the possible change cannot be made at this moment. A reconciliation of the beginning and ending amount of unrecognized tax benefit is as follows:

|   | <u>2018</u> | <u>2019</u> | <u>2019</u> |
|---|-------------|-------------|-------------|
|   | <u>RMB</u>  | <u>RMB</u>  | <u>US\$</u> |
| Balance at January 1,   | 8,799       | 7,613       | 1,094       |
| Additions due to tax positions taken and business combination during the current year | 2,636       | 26,662      | 3,830       |
| Reversal based on tax positions related to prior years                                | (171)       | (4,721)     | (679)       |
| Settlement  | (3,463)     | —           | —           |
| Foreign currency translation adjustments  | (188)       | —           | —           |
| Balance at December 31,   | 7,613       | 29,554      | 4,245       |

The Group recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expenses. For the years ended December 31, 2017, 2018 and 2019, the Group recognized approximately RMB734, RMB259 and RMB9,123 (US\$1,310) in interest, respectively, and RMB nil, RMB1,161, and nil in penalties, respectively. The Group had approximately RMB2,580 and RMB11,703 (US\$1,681) in accrued interest and penalties recorded in other non-current liabilities as of December 31, 2018 and 2019, respectively.

As of December 31, 2019, tax years ended December 31, 2014 through 2019 for the WFOE and the VIEs remain open to examination by the PRC tax authorities.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

## 13. RELATED PARTY TRANSACTIONS

## a) Related parties

*The direct controlling shareholder*

Bain Capital Education IV

*Entities controlled by the ultimate holding company*

Lionbridge Limited (“Lionbridge”)

Bain Capital Advisors (China) Ltd. (“Bain Advisors”)

b) During the years ended December 31, 2017, 2018 and 2019, the Group had the following related party transactions:

|  | Notes | For the year ended December 31, |             |             |              |
|--|-------|---------------------------------|-------------|-------------|--------------|
|  |       | 2017<br>RMB                     | 2018<br>RMB | 2019<br>RMB | 2019<br>US\$ |
| <b>Loan to a related party:</b>                |       |                                 |             |             |              |
| Lionbridge                                     | (i)   | 150,000                         | 150,000     | 100,000     | 14,364       |
| <b>Services received from a related party:</b> |       |                                 |             |             |              |
| Bain Advisors                                  | (ii)  | 38,537                          | —           | —           | —            |

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

13. RELATED PARTY TRANSACTIONS (Continued)

- (i) The Group entered into certain entrustment loan agreements with Lionbridge, pursuant to which the Group granted total loans of RMB150,000, RMB150,000 and RMB100,000 (US\$14,364) to Lionbridge during the years ended December 31, 2017, 2018 and 2019, respectively, with details set forth below:

| Year ended December 31, 2017 |           |               |  |
|------------------------------|-----------|---------------|--|
| Loan granted                 | Principal | Interest Rate | Period                                 |
| Loan 1                       | 100,000   | 7%            | February 24, 2017 to November 30, 2017 |
| Loan 2                       | 50,000    | 7%            | March 20, 2017 to November 30, 2017    |

| Year ended December 31, 2018 |           |               |                                    |
|------------------------------|-----------|---------------|------------------------------------|
| Loan granted                 | Principal | Interest Rate | Period                             |
| Loan 1                       | 150,000   | 7%            | March 1, 2018 to November 30, 2018 |

| Year ended December 31, 2019 |           |               |                                   |
|------------------------------|-----------|---------------|-----------------------------------|
| Loan granted                 | Principal | Interest Rate | Period                            |
| Loan 1                       | 100,000   | 7.2%          | May 30, 2019 to November 30, 2019 |

As of December 31, 2018 and 2019, respectively, the above loans were fully repaid. Interest income of RMB7,457, RMB7,539 and RMB3,509 (US\$504) from the above loans were recorded as interest income during the years ended December 31, 2017, 2018 and 2019, respectively.

- (ii) During the years ended December 31, 2017, 2018 and 2019, the Group accrued consulting fees of RMB38,537, RMB nil and nil, respectively, to Bain Advisors, an affiliate of the Group’s majority shareholder, which included a lump sum consulting termination fee of RMB33,887 to Bain Advisors as a result of the IPO for the year ended December 31, 2017.
- (iii) On November 1, 2017, the Group acquired Edge Business from a seller in which a managing director of Bain Capital is a director and minority shareholder.

c) The balances between the Group and its related parties as of December 31, 2018 and 2019 are listed below:

*Amounts due from a related party*

|                           | As at December 31, |      |      |
|---------------------------|--------------------|------|------|
|                           | 2018               | 2019 | 2019 |
|                           | RMB                | RMB  | US\$ |
| Bain Capital Education IV | 190                | 191  | 27   |

The balance consists of amount due from the Company’s direct controlling shareholder in the ordinary course of business.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

**14. RESTRICTED NET ASSETS**

Prior to payment of dividends, pursuant to the laws applicable to the PRC’s foreign investment enterprises, the VIE and the VIE’s subsidiaries must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of each company. These reserves include (i) general reserve and (ii) the development fund.

Subject to certain cumulative limits, the general reserve requires annual appropriations of 10% of after-tax income as determined under PRC laws and regulations at each year-end until the balance reaches 50% of the PRC entity registered capital; the other reserve appropriations are at the Company’s discretion. These reserves can only be used for specific purposes of enterprise expansion and are not distributable as cash dividends. During the years ended December 31, 2018 and 2019, the Group’s appropriations to the general reserve amounted to RMB5,665 and RMB7,673 (US\$1,102), respectively.

PRC laws and regulations require private schools that require reasonable returns to make annual appropriations of no less than 25% of after-tax income prior to payments of dividend to its development fund, which is to be used for the construction or maintenance of the school or procurement or upgrading of educational equipment. For private schools that do not require reasonable returns, this amount should be equivalent to no less than 25% of the annual increase of net assets of the school as determined in accordance with generally accepted accounting principles in the PRC. During the years ended December 31, 2018 and 2019, the Group’s appropriations to the development fund amounted to RMB26,314 and RMB18,812 (US\$2,702), respectively.

These reserves are included as statutory reserves in the consolidated statements of changes in shareholders’ equity. The statutory reserves cannot be transferred to the Company in the form of loans or advances and are not distributable as cash dividends except in the event of liquidation.

Relevant PRC laws and regulations restrict the WFOE and the VIEs from transferring certain of their net assets to the Company in the form of loans, advances or cash dividends. Amounts restricted include the paid in capital and statutory reserves of the WFOE and the VIEs, totaling approximately RMB240,397 (US\$34,531) as of December 31, 2019.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

## 15. (LOSS)/INCOME PER SHARE

Basic and diluted (loss)/income per share and per ADS for each of the years presented are calculated as follows:

|   | For the year ended December 31, |             |             |              |
|---|---------------------------------|-------------|-------------|--------------|
|   | 2017<br>RMB                     | 2018<br>RMB | 2019<br>RMB | 2019<br>US\$ |
| <b>Numerator:</b>   |                                 |             |             |              |
| Net (loss)/income attributable to RISE Education Cayman Ltd—basic and diluted | (47,974)                        | 142,958     | 148,100     | 21,273       |
| <b>Denominator:</b>   |                                 |             |             |              |
| Weighted average number of ordinary shares outstanding-basic                  | 101,890,411                     | 113,812,182 | 114,905,223 | 114,905,223  |
| Weighted average number of ordinary shares outstanding- diluted               | 101,890,411                     | 115,881,867 | 116,181,610 | 116,181,610  |
| Basic (loss)/income per share   | (0.47)                          | 1.26        | 1.29        | 0.19         |
| Diluted (loss)/income per share   | (0.47)                          | 1.23        | 1.27        | 0.18         |
| Basic (loss)/income per ADS   | (0.94)                          | 2.51        | 2.58        | 0.37         |
| Diluted (loss)/income per ADS   | (0.94)                          | 2.47        | 2.55        | 0.37         |

No adjustment has been made to the basic loss per share amount presented for the year ended December 31, 2017 as the impact of the outstanding share options were anti-dilutive.

Nil share options were excluded from the computation of diluted income per share for the year ended December 31, 2018 and 2019, respectively, because their effects would be anti-dilutive.

## 16. SHARE-BASED PAYMENTS

2016 Equity Incentive Plan

In 2016, the Board of Directors approved the Equity Option Plan (the “2016 Equity Incentive Plan”), which has a term of 10 years and is administrated by the Board of Directors. Under 2016 Equity Incentive Plan, the Company reserved options to its eligible employees, directors and officers of the Group for the purchase of 7,000,000 of the Company’s ordinary shares in aggregate (excluding shares which have lapsed or have been forfeited).

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

**16. SHARE-BASED PAYMENTS (Continued)**

In April 2016, the Board of Directors approved option grants to employees for the purchase of 5,985,000 of the Company’s ordinary shares. 50% of the options granted will generally vest in four or five equal installments over a service period (the “2016 Service Options”) while the remaining 50% of the options will vest in two equal installments of 25% each if a fixed targeted return on the Company’s ordinary shares is achieved (the “2016 Market Options”). Both the Service Options and Market Options (collectively, the “2016 Options”) are exercisable only upon the occurrence of an IPO or change of control (each or collectively, the “exercisability event”). The exercisability event constitutes a performance condition that is not considered probable until the completion of the IPO or change of control. The Company will not recognize any compensation expense until the exercisability event occurs. Upon the occurrence of the exercisability event, the effect of the change in this estimate will be accounted for in the period of change by cumulative compensation cost recognition as if the new estimate had been applied since the service inception date, with the remaining unrecognized compensation cost amortized over the remaining requisite service period. Upon the occurrence of the exercisability event (the IPO completion date), the Company immediately recognized expenses associated with options that were vested as of the IPO completion date amounting to RMB90,335. In addition, the Company also will recognize the remaining compensation expenses over the remaining service requisite period using the accelerated method.

***Modification of options***

In November 2017 (“2017 Modification Date”), the Board of Directors modified share options granted to six directors and officers to be fully vested on the 2017 Modification Date. On the 2017 Modification Date, the Company recognized compensation expenses amounting to RMB2,329 (US\$358) associated with the fully vested share options. The fair value of the share options immediately after the modification was the same as that immediately before the modification and therefore, the Company did not recognize any incremental compensation costs related to such modification.

In 2018, the vesting of 432,500 options granted to seven employees was accelerated, and 50,000 options of one employee was cancelled and replaced with cash rewards (which was an isolated non-recurring event). As of the respective modification dates in December 2018, the original performance condition of the 2016 Options was not expected to be satisfied, therefore, the modification-date fair value of the grantees’ respective 2016 Options instead of the original grant-date fair value was used to measure the modified 2016 Options. In 2019, the vesting of 309,000 options granted to four employees was accelerated. As of the respective modification dates in December 2019, the original performance condition of the 2016 Options was not expected to be satisfied, therefore, the modification-date fair value of the grantees’ respective 2016 Options instead of the original grant-date fair value was used to measure the modified 2016 Options.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

**16. SHARE-BASED PAYMENTS (Continued)**

A summary of the equity award activity under 2016 Equity Incentive Plan is stated below:

|  | <u>Number of<br/>options</u> | <u>Weighted -<br/>average<br/>exercise<br/>price</u><br>US\$ | <u>Weighted -<br/>Average<br/>grant date<br/>fair<br/>value</u> | <u>Weighted -<br/>average<br/>remaining<br/>contractual<br/>term</u><br>Years | <u>Aggregate<br/>intrinsic<br/>Value</u><br>US\$ |
|--|------------------------------|--|---|---|--|
| Outstanding, December 31, 2018                   | 2,299,103                    | 1.44   | N/A   | 6.13  | 5,840  |
| Granted  | 308,000                      | 1.44   | 3.50  |   |  |
| Exercised  | (468,384)                    | 1.44   | N/A   |   |  |
| Forfeited/Cancelled                              | (71,000)                     | 1.44   | 2.02  |   |  |
| Outstanding, December 31, 2019                   | 2,067,719                    | 1.44   | N/A   | 5.52  | 4,260  |
| Vested and expected to vest at December 31, 2019 | 2,067,719                    | 1.44   | N/A   | 5.52  | 4,260  |
| Exercisable at December 31, 2019                 | 2,002,719                    | 1.44   | N/A   | 5.43  | 4,126  |

The aggregate intrinsic value in the table above represents the difference between the fair value of the Company’s ordinary share as of December 31, 2019 and the option’s respective exercise price. Total intrinsic value of options exercised for the years ended December 31, 2017, 2018 and 2019 was nil, RMB168,917 and RMB9,981 (US\$1,434).

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

**16. SHARE-BASED PAYMENTS (Continued)**

1,333,000 awards were vested and share-based compensation expense of RMB21,896 (US\$3,170) was recorded for the year ended December 31, 2019, and the weighted-average grant-date fair value for vested options is US\$2.38. As of December 31, 2019, there was US\$128 of total unrecognized share-based compensation expenses. Total unrecognized compensation cost may be adjusted for actual forfeitures and modifications occurring in the future.

The fair value of Service Options and Market Options were determined using the binomial option valuation model and Monte Carlo simulation model, respectively, with the assistance from an independent third-party appraiser. The option valuation models required the input of highly subjective assumptions, including the expected share price volatility and the suboptimal early exercise factor. For expected volatilities, the Company has made reference to historical volatilities of several comparable companies. The suboptimal early exercise factor was estimated based on the Company’s expectation of exercise behavior of the grantees. The risk-free rate for the period within the contractual life of the Options is based on the market yield of U.S. Treasury Bonds in effect at the time of grant. The estimated fair value of the ordinary shares, was determined with the assistance of an independent third-party appraiser. Subsequent to the IPO, fair value of the ordinary shares is the price of the Company’s publicly traded shares. The Company’s management is ultimately responsible for the determination of the estimated fair value of its ordinary shares.

The assumptions used to estimate the fair value of 2016 Equity Incentive Plan granted or modified are as follows:

|  | For the years ended December 31, |                  |                 |
|--|----------------------------------|------------------|-----------------|
|  | 2017                             | 2018             | 2019            |
| Risk-free interest rate                            | 2.39%-2.93%                      | 3.51%-3.82%      | 2.41%-3.34%     |
| Expected volatility range                          | 47.5%-49.3%                      | 49.9%-53.6%      | 53.7%-55.2%     |
| Suboptimal exercise factor                         | 2.8                              | 2.8              | 2.8             |
| Fair value per ordinary share as at valuation date | US\$ 7.07                        | US\$ 5.28-\$7.06 | US\$4.11-\$5.37 |

**2017 Share Incentive Plan**

In 2017, the Board of Directors approved the Share Incentive Plan (the “2017 Share Incentive Plan”), which has a term of 10 years and is administrated by the Board of Directors. Under 2017 Share Incentive Plan, the Company reserved options to its eligible employees, directors and officers of the Group for the purchase of 5,000,000 of the Company’s ordinary shares in aggregate (excluding shares which have lapsed or have been forfeited).

In April 2019, the Board of Directors approved option grants to employees for the purchase of 4,800,000 of the Company’s ordinary shares. 60% of the options granted will generally vest in four equal installments over a prespecified service period (the “2017 Service Options”) while the remaining 40% of the options will vest based on certain performance conditions (the “2017 Performance Options”).

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

16. SHARE-BASED PAYMENTS (Continued)

A summary of the equity award activity under 2017 Equity Incentive Plan is stated below:

|  | Number of<br>options | Weighted -<br>average<br>exercise<br>price<br>US\$ | Weighted -<br>Average<br>grant date<br>fair<br>value | Weighted -<br>average<br>remaining<br>contractual<br>term<br>Years |
|--|----------------------|--|--|--|
| Outstanding, December 31, 2018                   | —                    |  |  |  |
| Granted  | 4,800,000            | 4.25   | 2.63   | 10   |
| Exercised  | —                    |  |  |  |
| Forfeited/Cancelled                              | (200,000)            | 4.25   | 2.63   | —  |
| Outstanding, December 31, 2019                   | 4,600,000            | 4.25   | NA   | 9.26   |
| Vested and expected to vest at December 31, 2019 | 4,600,000            | 4.25   | NA   | 9.26   |
| Exercisable at December 31, 2019                 | 690,000              | 4.25   | NA   | 9.26   |

For the year ended December 31, 2019, the share options were out of the money, therefore, no intrinsic value was disclosed. 720,000 awards were vested and share-based compensation expense of RMB13,081 (US\$1,894) was recorded for the year ended December 31, 2019, and the weighted-average grant-date fair value for vested options is US2.63. As of December 31, 2019, there was US\$7,125 of total unrecognized share-based compensation expenses. Total unrecognized compensation cost may be adjusted for actual forfeitures and modifications occurring in the future.

The fair value of 2017 Service Options and Performance Options were determined using the binomial option valuation model, with the assistance from an independent third-party appraiser. The option valuation models required the input of highly subjective assumptions, including the expected share price volatility and the suboptimal early exercise factor. For expected volatilities, the Company has made reference to historical volatilities of several comparable companies. The suboptimal early exercise factor was estimated based on the Company’s expectation of exercise behavior of the grantees. The risk-free rate for the period within the contractual life of the Options is based on the market yield of U.S. Treasury Bonds in effect at the time of grant. The fair value of the ordinary shares is the price of the Company’s publicly traded shares.

The assumptions used to estimate the fair value of 2017 Equity Incentive Plan granted are as follows:

|  | For the year ended December 31,<br>2019 |
|--|---|
| Risk-free interest rate                            | 3.29%                                   |
| Expected volatility range                          | 54.8%                                   |
| Suboptimal exercise factor                         | 2.8                                     |
| Fair value per ordinary share as at valuation date | \$ 4.94                                 |

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

## 16. SHARE-BASED PAYMENTS (Continued)

Total cost of share-based payments are summarized as follows:

|                                     | For the year ended December 31, |             |             |              |
|-------------------------------------|---------------------------------|-------------|-------------|--------------|
|                                     | 2017<br>RMB                     | 2018<br>RMB | 2019<br>RMB | 2019<br>US\$ |
| Cost of revenues                    | 17,063                          | 1,315       | 2,617       | 376          |
| Selling and marketing expenses      | 9,045                           | 4,229       | 1,016       | 146          |
| General and administrative expenses | 69,199                          | 14,808      | 44,256      | 6,357        |
| Total                               | 95,307                          | 20,352      | 47,889      | 6,879        |

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

## 17. COMMITMENTS AND CONTINGENCIES

*Capital expenditure commitments*

As of December 31, 2019, future minimum capital commitments under non-cancelable contracts were as follows:

|  | <u>RMB</u> | <u>US\$</u> |
|--|------------|-------------|
| Construction of leasehold improvements | 9,010      | 1,294       |

All capital expenditure commitments are expected to be paid within one year.

*Contingencies*

As of December 31, 2019, the Group is in the process of applying for private school operating permits or private non-enterprise entity registration certificates for several schools. In addition, some of the schools have not obtained fire safety approvals. An estimate for the reasonably possible loss or a range of reasonably possible losses associated with these contingencies cannot be made at this time.

From time to time, the Group is also subject to legal proceedings, investigations, and claims incidental to the conduct of its business. The Group is currently not involved in any legal or administrative proceedings that may have a material adverse impact on the Group’s business, financial position or results of operations.

## RISE EDUCATION CAYMAN LTD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

## 18. ACCUMULATED OTHER COMPREHENSIVE INCOME

|   | <u>Foreign currency<br/>translation adjustments</u><br>RMB |
|---|--|
| Balance as of January 1, 2017                               | 50,464   |
| Foreign currency translation adjustments, net of tax of nil | (10,424)   |
| Balance as of December 31, 2017                             | 40,040   |
| Foreign currency translation adjustments, net of tax of nil | 2,419  |
| Balance as of December 31, 2018                             | 42,459   |
| Foreign currency translation adjustments, net of tax of nil | (1,542)  |
| Balance as of December 31, 2019                             | 40,917   |
|   | US\$   |
| Balance as of December 31, 2019                             | 5,877  |

There have been no reclassifications out of accumulated other comprehensive income to net income for the periods presented.

## 19. SUBSEQUENT EVENT

In December 2019, novel coronavirus (COVID-19) was first reported to have surfaced in Wuhan, China. Subsequent to December 31, 2019, COVID-19 has spread rapidly to many parts of China and other parts of the world. The pandemic has resulted in quarantines, travel restrictions, and the temporary closure of stores and facilities in China and elsewhere. In accordance with government regulations to contain the outbreak of COVID-19, all the Group’s offline learning centers were temporarily closed since late January 2020.

Consequently, the COVID-19 outbreak has had, and will continue to have a materially adverse impact on the Group’s business, results of operations, financial position for 2020, including but not limited to revenues and collection of tuition fees. Because of the significant uncertainties surrounding the COVID-19 outbreak, the extent of the business disruption and the related financial impact cannot be reasonably estimated at this time. The Group also expects a net loss for the year ending December 31, 2020.

The Group is closely monitoring the situation and is proactively executing risk mitigation strategies to attenuate the impact of COVID-19. The Group is taking all measures necessary to preserve human life and the Group’s business along with taking several steps to further strengthen the financial position and improving financial liquidity, including launching online small-group classes, reducing capital expenditure and potential operating expenses while maintaining quality and safety standards and seeking additional financing. Based on these actions and assumptions regarding the impact of COVID-19, the Group believes that its current financial resources will be enough to fund the liquidity requirements for at least the next twelve months from April 17, 2020.

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

20. CONDENSED FINANCIAL INFORMATION OF THE COMPANY

Condensed Balance Sheets

|   | As at December 31, |                |                |
|---|--------------------|----------------|----------------|
|   | 2018<br>RMB        | 2019<br>RMB    | 2019<br>US\$   |
| <b>ASSETS</b>   |                    |                |                |
| <b>Current assets:</b>  |                    |                |                |
| Cash and cash equivalents   | 13,774             | 13,979         | 2,008          |
| Due from subsidiaries of the Group  | 47,096             | 52,910         | 7,600          |
| Prepayments and other current assets  | 8,682              | 8,648          | 1,242          |
| <b>Total current assets</b>   | <b>69,552</b>      | <b>75,537</b>  | <b>10,850</b>  |
| <b>Non-current assets:</b>  |                    |                |                |
| Investment in subsidiaries  | 436,925            | 636,322        | 91,402         |
| <b>Total non-current assets</b>   | <b>436,925</b>     | <b>636,322</b> | <b>91,402</b>  |
| <b>Total assets</b>   | <b>506,477</b>     | <b>711,859</b> | <b>102,252</b> |
| <b>LIABILITIES AND SHAREHOLDERS’ EQUITY</b>   |                    |                |                |
| <b>Current liabilities</b>  |                    |                |                |
| Accrued expenses and other liabilities  | 3,367              | 3,714          | 534            |
| Amount due to a subsidiary of the Group   | 47,355             | 99,249         | 14,256         |
| <b>Total current liabilities</b>  | <b>50,722</b>      | <b>102,963</b> | <b>14,790</b>  |
| <b>Total liabilities</b>  | <b>50,722</b>      | <b>102,963</b> | <b>14,790</b>  |
| <b>Shareholders’ equity:</b>  |                    |                |                |
| Ordinary shares (US\$0.01 par value; 200,000,000 and 200,000,000 shares authorized,<br>113,779,244 and 112,755,320 shares issued and outstanding as of December 31,<br>2018 and 2019, respectively) | 7,074              | 6,946          | 998            |
| Additional paid-in capital  | 600,011            | 583,262        | 83,780         |
| Treasury shares, at cost  | (23,460)           | —              | —              |
| Accumulated deficit   | (170,329)          | (22,229)       | (3,193)        |
| Accumulated other comprehensive income  | 42,459             | 40,917         | 5,877          |
| <b>Total shareholders’ equity</b>   | <b>455,755</b>     | <b>608,896</b> | <b>87,462</b>  |
| <b>Total liabilities and shareholders’ equity</b>   | <b>506,477</b>     | <b>711,859</b> | <b>102,252</b> |

RISE EDUCATION CAYMAN LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)

20. CONDENSED FINANCIAL INFORMATION OF THE COMPANY (Continued)

Condensed Statements of Comprehensive (Loss)/Income

|   | For the year ended December 31, |                |                |               |
|---|---------------------------------|----------------|----------------|---------------|
|   | 2017<br>RMB                     | 2018<br>RMB    | 2019<br>RMB    | 2019<br>US\$  |
| General and administrative expenses                         | —                               | (8,400)        | (5,600)        | (804)         |
| <b>Operating loss</b>                                       | —                               | (8,400)        | (5,600)        | (804)         |
| Equity in (loss)/profit of subsidiaries and the VIEs        | (54,676)                        | 138,698        | 153,668        | 22,072        |
| Interest income   | 6,702                           | 22             | 32             | 5             |
| Others, net   | —                               | 12,638         | —              | —             |
| <b>(Loss)/income before income tax expense</b>              | <b>(47,974)</b>                 | <b>142,958</b> | <b>148,100</b> | <b>21,273</b> |
| Income tax expense  | —                               | —              | —              | —             |
| <b>Net (loss)/income</b>                                    | <b>(47,974)</b>                 | <b>142,958</b> | <b>148,100</b> | <b>21,273</b> |
| <b>Other comprehensive (loss)/income, net of tax of nil</b> |                                 |                |                |               |
| Foreign currency translation adjustments                    | (10,424)                        | 2,419          | (1,542)        | (221)         |
| <b>Other comprehensive (loss)/income</b>                    | <b>(10,424)</b>                 | <b>2,419</b>   | <b>(1,542)</b> | <b>(221)</b>  |
| <b>Comprehensive (loss)/income</b>                          | <b>(58,398)</b>                 | <b>145,377</b> | <b>146,558</b> | <b>21,052</b> |

Statements of Cash Flows

|   | For the year ended December 31, |             |             |              |
|---|---------------------------------|-------------|-------------|--------------|
|   | 2017<br>RMB                     | 2018<br>RMB | 2019<br>RMB | 2019<br>US\$ |
| Net cash generated from investing activities                    | 571,808                         | 13,774      | 32          | 5            |
| Net cash used in financing activities                           | (571,808)                       | —           | —           | —            |
| Effect of exchange rate changes                                 | —                               | —           | 173         | —            |
| Net increase in cash, cash equivalents and restricted cash      | —                               | 13,774      | 205         | 5            |
| Cash, cash equivalents and restricted cash at beginning of year | —                               | —           | 13,774      | 2,003        |
| Cash, cash equivalents and restricted cash at end of year       | —                               | 13,774      | 13,979      | 2,008        |

**RISE EDUCATION CAYMAN LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in thousands of Renminbi (“RMB”) and US dollars (“US\$”)  
except share and ADS data and per share and per ADS data)**

**20. CONDENSED FINANCIAL INFORMATION OF THE COMPANY (Continued)**

(a) Basis of presentation

For the Company only condensed financial information, the Company records its investment in its subsidiaries and VIEs under the equity method of accounting. Such investment is presented on the condensed balance sheets as “Investment in subsidiaries” and share of their income/(loss) as “Equity in (loss)/profit of subsidiaries and the VIEs” on the condensed statements of comprehensive (loss)/income. The subsidiaries and VIEs did not pay any dividends to the Company for the periods presented.

(b) Commitments

The Company does not have any significant commitments or long-term obligations as of any of the periods presented.

The Company only condensed financial information should be read in conjunction with the Group’s consolidated financial statements.

### Consulting Service Agreement

This Consulting Service Agreement (the “**Agreement**”) is made and entered into as of June 28, 2019 in Beijing, PRC by and between:

- (1) **Rise Education International Limited**, a limited liability company duly organized and existing under the laws of the Hong Kong Special Administrative Region (“**Hong Kong**”), whose mailing address is at 21/F, CHINACHEM TOWER, 34-37 CONNAUGHT ROAD CENTRAL, HK (“**Service Provider**”).
- (2) **Rise (Tianjin) Education Information Consulting Company Limited** 天津瑞思教育信息咨询服务有限公司, a limited liability company duly organized and existing under the laws of People’s Republic of China (“**PRC**”, solely for the purpose of this Agreement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan), whose mailing address is at Room C209, C210, C213, C214, C217, C218, 2/F, Building 1, NO.8 Huanhe West Road, Airport Economic Zone, Tianjin, PRC (“**Service Recipient**”).

**Service Recipient** and **Service Provider** are collectively referred to as the “**Parties**” and each as a “**Party**”.

**Whereas:**

- (A) **Service Provider** is a company focusing on the development and application of interactive teaching methods, capable of providing valuable and sophisticated educational service solutions to educational institutions and teachers, in order to help students make progress in their studies in reading, languages, arts, mathematics, social studies and science;
- (B) **Service Recipient**, as a company with adequate financial and other resources in the field of English teaching and training for children, wishes to receive consulting and supporting services in the field of interactive education solutions and Service Provider wishes to provide such services in accordance with the terms and conditions of this Agreement;

NOW, THEREFORE, through friendly consultations, the Parties hereby agree as follows:

**1. Scope of Services**

Service Provider shall provide the following strategic consulting services (the “**Services**”), in Hong Kong, to the Service Recipient in accordance with the terms and conditions of this Agreement during the term of this Agreement:

The strategic consulting services provided by Service Provider to Service Recipient shall consist primarily of consulting services with respect to strategic planning on curriculum products and strategic consultation on curriculum products.

Consulting services with respect to strategic planning on curriculum products primarily include the following:

- providing quantitative analysis, which is comprehensive and objective, of the competition landscape in the curriculum products by using competition analysis models for similar curriculum products;
- conducting detailed surveys on competitive curriculum products, analyzing their strengths and weaknesses, and summarizing the lessons learnt from the success or failure of similar curriculum products to avoid repeating the mistakes;
- conducting benchmarking analysis on the top curriculum products within and outside the industry;
- analyzing the key success factors of curriculum products, and finding out the factors driving the upgrading of curriculum products;
- analyzing the competitive strengths, weaknesses, competition opportunities and threats of the curriculum products of Service Recipient to determine the core resources and capabilities of such curriculum products;
- defining the mission, vision and values of Service Recipient and, on this basis, defining the business scope and territorial scope of its curriculum products, defining the research and development areas relating to curriculum products, and determining the portfolio model of curriculum products;

- analyzing the feasibility of the diversification of curriculum products, determining strategic decisions on the diversification of and professional improvements in curriculum products, based on business synergies;
- developing the strategies and objectives for developing alternative curriculum products, and determining strategic decisions on the entry of or exit from certain markets of curriculum products and the detailed action plans;
- planning detailed strategies on curriculum products and forming strategic decision-making systems relating to curriculum products;
- developing detailed plans for the implementation of strategies as well as monitoring and control methodologies relating to curriculum products;
- conducting strategic risk analysis of curriculum products and making recommendations for risk prevention.

Strategic consultation services relating to curriculum products primarily include the following:

- providing seminars and strategic training on teaching, research and development strategies for senior teaching and research staff of Service Recipient to enhance the awareness and ability of senior staff's academic strategic management;
- assisting Service Recipient in the decomposition of the implementation of product strategies and assisting in the formulation of Service Recipient's strategic plans on relevant product divisions based on full understanding of Service Recipient's product strategies;
- developing financial budgets for tier 2 entities and functional departments based on the strategic plans of Service Recipient and its relevant departments, and developing next year's indicators and detailed implementation plans;
- assisting Service Recipient in developing the respective product implementation KPIs (Key Performance Indicators) to ensure the effective implementation of its strategic plans;
- assisting Service Recipient in organizing consultation meetings on product strategies, including preparation of meeting logistics and materials, on-site organization and post-meeting follow-up checks;

- assisting Service Recipient in the establishment of its product strategy management system, including product strategy planning process and product strategy implementation process as well as policies and procedures, through consultation meetings on product strategies, to form a complete cycle of product strategy management.

## 2. Service Fee

Service Recipient shall pay to Service Provider the service fee (“**Service Fee**”) (inclusive of all applicable taxes) in accordance with Schedule 1 for the Services. To facilitate the operation of Service Recipient, in the event that Service Recipient incurs losses, Service Provider may agree to waive the obligations of Service Recipient to pay Service Fee to Service Provider.

## 3. Intellectual Property

All rights and benefits of intellectual property created or derived from the performance of this Agreement, including but without limitation, copyrights, patents, rights to apply for patents, trademarks, rights to apply for trademarks, software, know-how, technology data and commercial secrets, regardless of whether being developed or created by Service Provider or/and Service Recipient, shall exclusively and solely belong to Service Provider.

## 4. Representations and Warranties

4.1 Service Provider hereby represents and warrants to Service Recipient as follows:

4.1.1 Service Provider is a limited liability company duly organized and existing under the laws of Hong Kong.

4.1.2 Service Provider has legal rights to execute and perform this Agreement. The execution and the performance of this Agreement are in compliance with the articles of association or other constitutional documents of Service Provider. Service Provider has obtained all necessary and appropriate approval and authorization to execute and perform this Agreement.

- 4.1.3 The execution and the performance of this Agreement by Service Provider will not violate any provisions of laws and regulations, governmental approvals, authorization, notification, or any other regulatory documents binding or affecting Service Provider, and will not violate its any agreement with or commitment to any third party.
- 4.1.4 This Agreement constitutes legal, valid and binding obligations of Service Provider.
- 4.2 Service Recipient hereby represents and warrants to Service Provider as follows:
  - 4.2.1 Service Recipient is a limited liability company duly organized and existing under the laws of PRC.
  - 4.2.2 Service Recipient has legal rights to execute and perform this Agreement. The execution and the performance of this Agreement are in compliance with the articles of association or other constitutional documents of Service Recipient. Service Recipient has obtained all necessary and appropriate approval and authorization to execute and perform this Agreement.
  - 4.2.3 The are in compliance with and the performance of this Agreement by Service Recipient does not violate any provisions of laws and regulations, governmental approvals, authorization, notification, or any other regulatory documents binding or affecting Service Recipient, and does not violate its any agreement with or any commitment to any third party.
  - 4.2.4 This Agreement constitutes legal, valid and binding obligations of Service Recipient.

**5. Confidentiality**

The Parties covenant and confirm that any communications and information relating to this Agreement between the Parties orally or in writing shall be confidential information. Neither Party may disclose any confidential information of the other Party without prior writing consent from the other Party, except that: (a) relevant information has been made public not as a result of the fault or the disclosure of the information recipient; (b) disclosure is required under applicable laws or regulations or rules of securities regulators; or, (c) information relating to the transactions under this Agreement is disclosed to the legal or financial advisers of either Party who are bound by the confidentiality obligations similar to the obligations under this provision. Any employees of one Party disclosing any confidential information shall be deemed as the Party disclosing confidential information and such Party shall be liable for any breach of contract under this Agreement. This Article 5 shall survive the termination of the Agreement.

**6. Effectiveness and Term of this Agreement**

This Agreement shall be executed and effective as of the date set forth above in this Agreement. The term of this Agreement shall be five years. This Agreement shall be renewed automatically for another five years upon expiration unless a Party notifies in writing the other Party of the termination within thirty days prior to the expiration. This Agreement may be terminated in advance through friendly consultations by the Parties.

**7. Indemnification**

Service Recipient shall indemnify Service Provider for any liability arising from services provided by Service Provider in accordance with this Agreement or the requirements of Service Recipient, including but not limited to, any damages or losses due to litigation, accusation, arbitration or petition instituted by any third party, or, any administration investigation or penalty or sanction. Notwithstanding the foregoing, Service Recipient will not indemnify Service Provider for any damages or losses resulting from Service Provider's willful misconduct or gross negligence.

## **8. Governing Laws and Disputes Settlement**

- 8.1. The conclusion, effectiveness, interpretation, performance, modification and termination of this Agreement and the settlement of disputes under this Agreement shall be governed by and interpreted in accordance with PRC laws.
- 8.2. The Parties shall strive to settle any dispute arising from or in connection with this Agreement through friendly consultations. In the event that no settlement can be reached through consultations within 30 days of the date of notification requesting such consultation given by one Party to the other Party, such dispute shall be submitted to China International Economic and Trade Arbitration Commission, Beijing Headquarter (“**CIETAC**”) for arbitration. The arbitration proceedings shall be conducted in Beijing in [Chinese] pursuant to CIETAC’s then effective arbitration rules. The arbitration tribunal shall consist of three arbitrators. The applicant(s), on one hand, and the respondent(s), on the other hand, shall each designate an arbitrator, and the Parties shall jointly designate the third arbitrator. The arbitral award shall be final and binding upon the Parties.
- 8.3. During the period when a dispute is being resolved, the Parties shall continue to perform this Agreement in all respects other than the issue(s) under dispute.

## **9. Payment**

Unless otherwise expressly stated, each payment to be made to the Service Provider under this Agreement shall be made in the People’s Republic of China RMB Yuan. Service Recipient shall transfer the relevant amount into the relevant account on the date the payment is due for value and in immediately available funds. The account for the payment is:

Account Name: RISE EDUCATION INTERNATIONAL LTD

Bank Address: HONG KONG 1 QUEENS ROAD CENTRAL

Account Number: 848-583373-274

Swift Code: HSBCHKHH

Payment under this Agreement may be made to such other account as the Service Provider shall, not less than three business days before the date that payment is due, have specified by giving notice to Service Recipient for the purpose of that payment.

## 10. Notice

Notices, claims, certificates, requests, requirements and all other communications permitted or required to be given under this Agreement shall be in writing and shall be delivered to the other Party by hand delivery, fax, or, normal postage prepaid mails; if delivered by hand delivery, the time of actual delivery shall be deemed as "delivery"; if through fax, the date of receiving the confirmation of fax delivery shall be deemed as "delivery"; if through normal postage prepaid mails, notices, claims, certificates, requests, requirements and all other communications permitted or required to be given under this Agreement shall be deemed to have been delivered on the fifth day after dispatch of the mail; Each Party's address for delivery is as follows:

If to Service Provider: **Rise Education International Limited**

Address: 21/F, CHINACHEM TOWER, 34-37 CONNAUGHT ROAD CENTRAL, HK

Attention: Sun Yi Ding

If to **Service Recipient: Rise (Tianjin) Education Information Consulting Company Limited**

Address: Room C209, C210, C213, C214, C217, C218, 2/F, Building 1, NO.8 Huanhe West Road, Airport Economic Zone, Tianjin, PRC

Attention: Sun Yi Ding

## 11. Others

11.1 Neither Party has the right to assign the rights and obligations arising from this Agreement without prior written consent of the other Party.

- 11.2 The conclusion and the performance of this Agreement shall not be deemed as the relationship of joint venture or partnership between the Parties or cause one Party to be liable for the other Party's action or omission, or cause one Party to become the agent for the other Party. Neither Party has the right to represent the other Party as its agent, or act in the name of the other Party, or bind the other Party through other methods beyond this Agreement.
- 11.3 If any provision of this Agreement is held invalid or unenforceable, then such provision shall (so far as it is invalid or unenforceable) be given no effect and shall be deemed not to be included in this Agreement without invalidating any of the remaining provisions of this Agreement. The Parties shall then use all reasonable endeavors to replace the invalid or unenforceable provisions by a valid and enforceable substitute provision, the effect of which is as close as possible to the intended effect of the invalid or unenforceable provision.
- 11.4 Notwithstanding anything contained herein, this Agreement may not be amended or modified unless agreed by both Parties in writing.
- 11.5 This Agreement is written in English and signed in two (2) original copies and each Party hereto shall hold one original copy. Both original copies shall have the same legal effect. However, it is understood that a Chinese version of this Agreement shall be executed for the purpose of tax and foreign exchange clearance. Both this Agreement and that Chinese version agreement are valid and binding upon each Party hereto and thereto. In the case of any conflicts between this Agreement and that Chinese version, this Agreement shall prevail.

*[The remainder of this page is intentionally left blank.]*

This Agreement is entered into by the duly authorized representatives of the Parties as of the date set forth above. Each Party shall be bound by this Agreement.

**Rise Education International Limited] (Seal)**

By: /s/ Sun Yi Ding  
Name: Sun Yi Ding  
Title: Director

**Rise (Tianjin) Education Information Consulting  
Company Limited (Seal)**

By: /s/ Sun Yi Ding  
Name: Sun Yi Ding  
Title: Legal Representative

*Signature Page of the Consulting Agreement between WFOE and HK Co.*

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## SCHEDULE 1

### Service Fees

During the term of this Agreement, Service Recipient shall pay to Service Provider the Service Fee on a quarterly basis. The amount of the Service Fee shall be the sum of Service Provider's actual cost incurred for providing the Services described in this Agreement plus a mark-up at a percentage as agreed upon between both Parties and confirmed by a letter of confirmation substantially in the form attached hereto.

Service Recipient shall pay the Service Fee in accordance with the written payment instructions of Service Provider.

**Annex 1 – Form of the Letter of Confirmation on the Amount of Service Fee**

**Letter of Confirmation on the Amount of Service Fee**

Reference is made to the Consulting Service Agreement (the “**Agreement**”), dated as of June 28, 2019, by and between Rise Education International Limited (“**Service Provider**”) and Rise (Tianjin) Education Information Consulting Company Limited (“**Service Recipient**”).

Pursuant to Section 2 and Schedule 1 of the Agreement, Service Provider and Service Recipient agree that the amount of the Service Fee for the [●] quarter of 20[●] shall be the sum of Service Provider’s actual cost incurred during the quarter plus a mark-up of [●]%. Such Service Fee shall amount to RMB[●].

The above-referenced Service Fee shall be paid by Service Recipient to the account designated by Service Provider not later than [Date] in accordance with the written payment instructions of Service Provider.

**Rise Education International Limited**

**Rise (Tianjin) Education Information Consulting Company Limited**

\_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

Date:

**SERVICE AGREEMENT**

This Service Agreement (this “**Agreement**”) is entered into as of June 28, 2019 in Beijing, China, by and between:

Party A: Rise (Tianjin) Education Information Consulting Co., Ltd. (“**Service Provider**”)

Mailing address: Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West Road, Airport Economic Zone, Tianjin, China

Party B: Beijing Step Ahead Education Technology Development Co., Ltd. (“**Service Recipient**”)

Mailing address: No. C01-1, 4/F, 42 Beiyuan Road, Chaoyang District, Beijing, China

**Whereas:**

1. **Service Provider** is a company with adequate financial and other resources in the field of English teaching and training for children, capable of providing valuable and sophisticated educational services solutions to educational institutions and teachers;
2. **Service Recipient** engages in the field of English teaching and training for children. Service Recipient agrees to accept Service Provider’s services as specified in this Agreement and utilize Service Provider’s resources to provide services to relevant education and training institutions;
3. **Service Recipient**, as the licensor, has entered into franchise agreements with third-party cooperative learning centers (“**Cooperative Learning Centers**”) as the licensees, and hereby collects franchise fee (“**Franchise Fee**”) from Cooperative Learning Centers.

This Agreement is entered into by and between Service Provider and Service Recipient (each a “**Party**” and collectively, the “**Parties**”) upon mutual consultation to promote the development of education and training and cultivate talents for the society.

**1. Scope of Services**

Service Provider shall provide the following services (the “**Services**”) to Service Recipient:

**(1) Teaching Plan System Services**

Service Provider shall develop and provide to Service Recipient teaching plan systems, including, among other things, teaching skills, techniques, operation guidance and codes of conduct used in the teaching process;

(2) Continuous Research, Development, Implementation and Support Services in Respect of Intangible Assets  
Service Provider shall provide guidance to Service Recipient on the teaching plans, courseware or other teaching materials that Service Recipient has legal rights to use in the teaching and training process;

(3) License of Business Management System Software  
Service Provider shall grant Service Recipient the rights to use the business management system software developed by Service Provider for the management of student and teacher resources. Service Recipient may sub-license such rights to Cooperative Learning Centers.

(4) Sales of Teaching Materials  
Service Provider shall provide Service Recipient with textbooks and other training materials (“**Teaching Materials**”). Service Provider hereby authorizes Service Recipient to collect from Cooperative Learning Centers fees and costs for Teaching Materials, which shall then be paid to Service Provider.

**2. Non-exclusivity**

The provision of the Services under this Agreement is non-exclusive. Service Provider may use the Services by itself or provide similar services to any other third party within the area where Service Recipient operates or other areas.

**3. Assignment**

Unless otherwise provided herein, Service Recipient shall not assign or transfer any rights or obligations hereunder to any third party without the prior written consent of Service Provider. Service Provider may assign or transfer its rights and obligations hereunder to any third party in connection with, among other things, equity restructuring or business restructuring, without the consent of Service Recipient.

**4. Service Fees**

(1) Amount of Service Fees

a) Service Fee for Teaching Plan System Services

Service fee for teaching plan system services, as part of the Franchise Fee charged by Service Recipient to Cooperative Learning Centers, amounts to two percent (2%) of the tuition fees collected by Cooperative Learning Centers from their students;

- b) **Service Fee for Continuous Research, Development, Implementation and Support Services in Respect of Intangible Assets**  
Service fee for continuous research, development, implementation and support services in respect of intangible assets, as part of the Franchise Fee charged by Service Recipient to Cooperative Learning Centers, amounts to one percent (1%) of the tuition fees collected by Cooperative Learning Centers from their students.
- c) **Royalties for Business Management System Software**  
Royalties for business management system software, as part of the Franchise Fee charged by Service Recipient to Cooperative Learning Centers, amount to three percent (3%) of the tuition fees collected by Cooperative Learning Centers from their students. Service Provider may, in its sole discretion, waive the royalties for business management system software, provided that such waiver by Service Provider on one or more occasions does not affect Service Provider's right to collect such royalties in the future;
- d) **Fees and Costs for Teaching Materials**  
Fees and costs for Teaching Materials are calculated at eighty percent (80%) of the prices of Teaching Materials, multiplied by the number of the students enrolled in Cooperative Learning Centers. Service Recipient shall make onward payment of such fees and costs to Service Provider upon its collection thereof on behalf of Service Provider, and Service Provider shall issue invoices for fees and costs for Teaching Materials to the Cooperative Learning Centers.

(2) **Payment of Service Fees**

Service Recipient shall pay Service Provider service fees for teaching plan system services, continuous research, development, implementation and support services in respect of intangible assets, royalties for business management system software and fees and costs for Teaching Materials (collectively, "**Service Fees**") within ten (10) business days after Service Provider dispatches Teaching Materials to the self-owned learning centers upon the instructions by Service Recipient.

To facilitate the operation of Service Recipient, in the event that Service Recipient incurs losses, Service Provider may agree to waive the obligations of Service Recipient to pay Service Fees to Service Provider.

**5. Payment Methods**

Service Recipient shall make the payment of Service Fees through bank remittance or other payment methods to the following account designated by Service Provider:

Account Name: Rise (Tianjin) Education Information Consulting Co., Ltd.

Account Bank: China CITIC Bank (Beijing Shijingshan Sub-branch)

Account Number: 7117410182600004703

## **6. Intellectual Property**

All the legal rights in respect of the Services shall be owned by Service Provider. Service Recipient does not obtain any intellectual property rights in respect of the Services by entering into this Agreement. All the intellectual property rights created or derived from the provision of the Services, including but without limitation, copyrights, patents, patent applications, trademarks, trademark applications, software, know-how, technology data and commercial secrets, regardless of whether being developed or created by Service Provider or Service Recipient, shall be exclusively and solely owned by Service Provider.

## **7. Representations and Warranties**

- (1) Service Provider hereby represents and warrants to Service Recipient as follows:
  - (a) Service Provider is a limited liability company duly organized and existing under the laws of China.
  - (b) Service Provider has legal rights to execute and perform this Agreement. The execution and performance of this Agreement does not contravene the articles of association or other constitutional documents of Service Provider. Service Provider has obtained all necessary and appropriate approvals and authorizations to execute and perform this Agreement.
  - (c) The execution and performance of this Agreement by Service Provider will not violate any provisions of laws and regulations, governmental approvals, authorizations, notifications, or any other regulatory documents binding or affecting Service Provider, and will not violate any of its agreements with, or commitments to, any third party.
  - (d) This Agreement constitutes legal, valid and enforceable obligations of Service Provider.
- (2) Service Recipient hereby represents and warrants to Service Provider as follows:
  - (a) Service Recipient is a limited liability company duly organized and existing under the laws of China.
  - (b) Service Recipient has legal rights to execute and perform this Agreement. The execution and performance of this Agreement does not contravene the articles of association or other constitutional documents of Service Recipient. Service Recipient has obtained all necessary and appropriate approvals and authorizations to execute and perform this Agreement.
  - (c) The execution and performance of this Agreement by Service Recipient will not violate any provisions of laws and regulations, governmental approvals, authorizations, notifications, or any other regulatory documents binding or affecting Service Recipient, and will not violate any of its agreements with, or commitments to, any third party.

(d) This Agreement constitutes legal, valid and enforceable obligations of Service Recipient.

## **8. Confidentiality**

The Parties covenant and confirm that any verbal communications, written documents or electronic information (including but not limited to software codes and any contents contained in the software) relating to this Agreement between the Parties shall be confidential information. Neither Party may disclose any confidential information of the other Party without prior written consent from the other Party, except that: (1) relevant information has been made public not as a result of any fault or disclosure by the information recipient; (2) such disclosure is required under applicable laws or regulations or rules of securities exchanges. Any employees of one Party disclosing any confidential information shall be deemed as the Party disclosing confidential information and such Party shall be liable therefor under this Agreement. This clause shall survive the termination of this Agreement.

## **9. Events of Default**

Failure by a Party to perform its obligations under this Agreement or any non-compliance of its performance of obligations with this Agreement or any of its representations and warranties under this Agreement being materially untrue or inaccurate shall constitute an event of default. The defaulting Party shall indemnify the non-defaulting Party for all the direct and indirect losses arising from its default. Notwithstanding the foregoing, upon any delay by Service Recipient in its payment of any Service Fees to Service Provider, for each day of delay in such payment, Service Recipient must pay Service Provider liquidated damages at 0.5 percent (0.5%) of the Service Fees that are due and unpaid. In the event that such delay in payment is more than fifteen (15) days, Service Provider may terminate this Agreement. Service Recipient shall be liable for indemnifying Service Provider in full for the losses it incurred therefrom.

Either Party's failure to exercise the right to claim liquidated damages or indemnification for losses against the other Party shall not be deemed as a waiver of such right.

## **10. Termination**

This Agreement shall be terminated upon the occurrence of any of the following:

- (1) The validity period of this Agreement expires and the Parties fail to reach an agreement on renewal;
- (2) The Parties mutually agree to terminate this Agreement; or
- (3) Service Provider exercises the right to terminate this Agreement upon a default by Service Recipient.

If this Agreement is terminated by Service Provider upon a default by Service Recipient, Service Provider will not refund the prepaid Service Fees to Service Recipient.

#### **11. Notice**

Any written notice sent by registered or express mail shall be deemed being delivered three (3) business days after the date on which the mail is dispatched (evidenced by the postmark) unless the address on the mailing slip is different from the address specified in this Agreement. Any written notice sent by facsimile shall be deemed being delivered when the receipt is confirmed.

In addition, Service Provider may send any notice by email to the email address provided by Service Recipient in this Agreement, and the notice shall be deemed as being delivered when such email is successfully sent.

The address of each Party for notice purposes shall be as follows:

Service Provider: Rise (Tianjin) Education Information Consulting Co., Ltd.

Address: Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West Road, Airport Economic Zone, Tianjin, China

Service Recipient: Beijing Step Ahead Education Technology Development Co., Ltd.

Address: No. C01-1, 4/F, 42 Beiyuan Road, Chaoyang District, Beijing, China

#### **12. Dispute Resolution and Governing Law**

The Parties shall seek to resolve all the disputes arising from or in connection with this Agreement through friendly consultation. In the event that any dispute cannot be resolved through such consultation, such dispute shall be submitted to the Beijing Arbitration Commission (“BAC”) for arbitration pursuant to the then effective arbitration procedures and rules of BAC. The arbitral award shall be final and binding upon the Parties.

#### **13. Renewal**

This Agreement shall be effective as of the date set forth above in this Agreement. The term of this Agreement shall be five (5) years. This Agreement shall be renewed automatically for another five (5) years upon the expiration unless the Parties confirm, in writing, the termination of this Agreement.

#### **14. Miscellaneous**

- (1) This Agreement is executed in two (2) original copies and each Party shall hold one original copy. Both original copies shall have the same legal effect.
- (2) This Agreement shall become effective upon being affixed with both Parties’ corporate seals.

*[The remainder of this page is left blank]*

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date first above written.

**Party A: Rise (Tianjin) Education Information Consulting Co., Ltd.**

**(Corporate Seal)**

**Party B: Beijing Step Ahead Education Technology Development Co., Ltd.**

**(Corporate Seal)**

## LICENSE AGREEMENT

This license agreement (this "**Agreement**") is entered into as of June 28, 2019 (the "**Effective Date**") by and between Rise (Tianjin) Education Information Consulting Co., Ltd. ("**Licensor**"), and Beijing Step Ahead Education Technology Development Co., Ltd. a company incorporated in China ("**Licensee**"). Licensor or Licensee are referred to individually as a "**Party**" and, collectively, as the "**Parties**".

WHEREAS, the Licensor owns or has been licensed rights to Licensed Material (as hereinafter defined); and

WHEREAS, the Parties wish to enter into an agreement pursuant to which Licensee will manufacture, promote, sell and distribute the Licensed Material (as hereinafter defined) and certain products based on or bearing the Licensed Material, and provide certain education-related services using the Licensed Material and certain products based on or bearing the Licensed Material.

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

**1. DEFINITIONS.**

1.1 "**Agreement**" is defined in the preamble.

1.2 "**Attribution Language**" means the following or reasonably similar attribution statement: "Foundational content provided by Houghton Mifflin Harcourt."

1.3 "**China**" means the People's Republic of China, which, for the purpose of this Agreement, excludes Hong Kong, Macau and Taiwan.

1.4 "**Customized Product(s)**" means any products or services containing, derived from, or developed by or on behalf of Licensee, its licensors and their permitted direct or indirect sub-licensees based on, any HMH Products, including but not limited to the material listed in Exhibit A-4 attached hereto under the heading "Customized Products".

1.5 "**Destination Marks**" means any and all of the trademarks and applications and registrations thereof listed on Exhibit A-2 attached hereto, and any other trademarks consisting of or including the word "DESTINATION", and all applications and registrations or future applications and registrations thereof in the Territory.

- 1.6 “**Effective Date**” is defined in the preamble.
- 1.7 “**HMH Products**” means, collectively, (a) those products designated by HMH that are listed on Exhibit A-1 attached hereto under the heading “HMH ELL Destination Products” and distinguished by copyright date and International Standard Book Number (ISBN), and the pictorial works listed on Exhibit A-1 attached hereto under the heading “HMH ELL Destination Products Pictorial Works”, (b) those products that are listed on Exhibit A-1 attached hereto under the heading “HMH ELL Other Backlist Products” and distinguished by copyright date and International Standard Book Number (ISBN), (c) those products that are listed on Exhibit A-1 attached hereto under the heading “HMH ELL Other Frontlist Products” and distinguished by copyright date and International Standard Book Number (ISBN), (d) any materials that are listed on Exhibit A-1 attached hereto under the heading “HMH ELL Other Products”, and (e) those products that are listed on Exhibit A-1 attached hereto under the heading “HMH Professional Development Products” and distinguished by copyright date and International Standard Book Number (ISBN).
- 1.8 “**Licensed Material**” is defined in Section 2.1 below.
- 1.9 “**Licensed Rights**” is defined in Section 2.1 below.
- 1.10 The terms “**Party**” and “**Parties**” are defined in the preamble.
- 1.11 “**Rise Marks**” means any and all of the trademarks and applications and registrations thereof listed on Exhibit A-3 attached hereto and any other trademarks consisting of or including the word “RISE” or “”, any other trademarks that are the Chinese translation or equivalents of the foregoing, and all applications and registrations or future applications and registrations thereof in the Territory.
- 1.12 “**Rise Products**” means the products and services bearing one or more of the Rise Marks.
- 1.13 “**Royalties**” means the royalties as defined in Section 3.1 below, as amended from time to time by the Parties.
- 1.14 “**Sales**” means gross sales recognized in accordance with the generally accepted accounting principles as in effect in China, consistently applied.
- 1.15 “**Software**” means the materials listed on Exhibit A-1 attached hereto under the heading “Software”.
- 1.16 “**Territory**” is defined in Section 2.1 below.
- 1.17 “**Term**” is defined in Section 9 below.

## 2. **LICENSED RIGHTS.**

2.1 **Rights Granted to Licensee.** Subject to the terms and conditions of this Agreement and any other agreement between the Parties in respect of the subject matter hereof, Licensor hereby grants to Licensee a non-exclusive license ("**Licensed Rights**") to utilize the following materials (collectively, "**Licensed Material**") within the People's Republic of China:

### **Licensed Material:**

- (a) HMM Products
- (b) Software
- (c) Destination Marks
- (d) Attribution Language
- (e) Rise Products
- (f) Rise Marks
- (g) Customized Products

2.2 **Sub-Licensing.** Subject to the terms and conditions of this Agreement and upon the prior written consent of Licensor, Licensee may sub-license the Licensed Rights pursuant to a written sublicense agreement reasonably satisfactory to Licensor.

2.3 **Reservation of Rights.** Except as expressly provided herein, Licensee shall not copy, modify, display, decompile, store, translate, sell, lease, transfer, distribute or use the Licensed Material without Licensor's express prior written consent.

## 3. **ROYALTIES.**

3.1 **Payment of Royalties.** As the consideration for the Licensed Rights and other rights granted to Licensee under this Agreement, Licensee shall pay to Licensor an amount equal to five percent (5%) of the Sales of all sub-licensees of Licensee measured on a consolidated basis as Royalties (the "**Royalties**"). The Royalties shall be invoiced and payable on a quarterly basis during the term of this Agreement in accordance with the written payment instructions of Licensor given at the end of each calendar quarter. Licensor will have the right to waive, in part or in whole, any Royalty payment in its sole discretion upon written notice to Licensee.

3.2 **Interest.** Any Royalty payment due and payable but that has not been paid to Licensor when due for any reason will accrue until paid, and such accrued Royalty payment will be subject to an interest charge. The interest will accrue and be compounded daily beginning on the day on which such Royalty payment is due and continuing until the date on which such Royalty payment is made. The rate of such interest shall be five percent (5%) per annum. Licensor will have the right to waive, in part or in whole, any interest accrued on any outstanding Royalty payment or interest charged in its sole discretion upon written notice to Licensee.

3.3 **Adjustment.** The Parties agree that Licensor will have the right to review the adequacy of the Royalties at the end of each calendar year during the term of this Agreement (or more frequently as commercially reasonable as determined by Licensor) and adjust the Royalties payable under Section 3.1 above, subject to changes in market conditions, upon written notice to Licensee.

#### 4. **TITLE.**

The Licensee shall acquire no right, title or interest in or to the Licensed Material; Licensee shall not reverse engineer or decompile any of the Licensed Material.

#### 5. **UNDERTAKINGS OF THE PARTIES.**

5.1 **Compliance with Laws.** Licensee will comply with all the applicable laws and regulations, including, but not limited to, all applicable laws and regulations governing product warranties.

5.2 **Support.** Licensor's only obligation to provide technical support shall be to Licensee directly and not to any third party.

5.3 **Materials.** Unless otherwise agreed, Licensor will deliver to Licensee, according to a schedule agreed upon by the Parties, the Licensed Material, together with such information and documentation as Licensee may reasonably require.

#### 6. **REPRESENTATIONS AND WARRANTIES.**

6.1 **Licensor.** Licensor represents and warrants that (i) Licensor owns all necessary rights, or has obtained necessary rights, pursuant to certain license agreements or sublicense agreements, to the Licensed Material; (ii) Licensor has the full power and authority to enter into this Agreement, all subject to revisions to rights granted to Licensor for third party intellectual properties, where applicable.

6.2 **Licensee.** Licensee represents and warrants that Licensee has full power and authority to enter into this Agreement and that it will comply with all applicable laws in manufacturing, marketing and distributing products based on the Licensed Material.

#### 7. **INDEMNIFICATION.**

7.1 **Licensor Indemnity.** Licensor shall indemnify, defend and hold Licensee harmless from and against all claims, suits, demands, actions and proceedings, judgments, penalties, damages, costs and expenses (including reasonable legal fees and costs), losses or liabilities ("**Damages**") arising out of a claim that any Damages incurred by Licensee resulting from a breach by Licensor of any representation, warranty or other provision of this Agreement, and Licensor will pay the costs and damages finally awarded in any suit or proceeding.

7.2 **Licensee Indemnity.** Licensee shall indemnify and hold Licensor and its licensors harmless from and against all Damages which may arise or result from any costs or damages incurred by Licensor resulting from a breach by Licensee of any representation, warranty or other provision of this Agreement.

**8. TERM OF AGREEMENT; RENEWAL.**

Unless earlier terminated pursuant to this Agreement, the term of this Agreement will commence on the Effective Date and continue for five (5) years. This Agreement will be renewed automatically for successive five (5)-year periods, unless both Parties agree to terminate it in writing (the initial term and all renewal terms, collectively, the "**Term**").

**9. TERMINATION.**

9.1 **Termination for Cause.** Either Party may terminate this Agreement for cause as follows:

(a) **Bankruptcy.** Either Party may immediately terminate this Agreement upon written notice to the other Party in the event that proceedings in bankruptcy or insolvency are instituted by or against the other Party, or a receiver is appointed, or if any substantial part of the assets of the other Party is the object of attachment, sequestration or other type of comparable proceeding, and such proceeding is not vacated or terminated within sixty (60) days after its commencement or institution.

(b) **Material Breach.** Either Party may terminate this Agreement if the other Party commits a material breach of any of the terms or provisions of this Agreement and does not cure such breach within thirty (30) days after receipt of written notice of said material breach given by the non-defaulting Party.

(c) **Termination for Cessation of Business.** Upon not less than thirty (30) days prior written notice, Licensor may terminate this Agreement if Licensee ceases to carry on its business or substantially all of its business, and the rights granted to Licensee hereunder cease to be utilized, unless a successor or assign of Licensee has succeeded to, and is conducting the business or substantially all of the business of, Licensee. Licensee shall have the right to recommence its business or substantially all of its business within such thirty (30)-day period, and, if Licensee so recommences its business, such termination shall not occur.

**10. ASSIGNMENT.**

This Agreement or any part thereof may not be assigned or transferred by Licensee, by operation of law or otherwise, without the prior written consent of Licensor (which shall not be unreasonably withheld). Licensor may assign or transfer its rights and obligations under this Agreement upon prior written notice to Licensee. Subject to the foregoing, this Agreement will be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

**11. MISCELLANEOUS.**

11.1 **Agreement.** This Agreement shall not supersede any other written agreements between the Parties with respect to the Licensed Material, and the terms and conditions of such other written agreements shall control in all respects in the event of any conflicting terms and conditions or dispute regarding the interpretation, applicability or enforcement of this Agreement. This Agreement may be amended only by a writing signed by the Parties hereto.

11.2 **Dispute Resolution.** The Parties shall seek to resolve all the disputes arising from or in connection with this Agreement through friendly consultation. In the event that any dispute cannot be resolved through such consultation, such dispute shall be submitted to the Beijing Arbitration Commission ("**BAC**") for arbitration pursuant to the then effective arbitration procedures and rules of BAC. The arbitral award shall be final and binding upon the Parties.

11.3 **Notices.** All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as properly given or made (i) when received, if hand delivered, sent by facsimile transmission (the receipt of which is confirmed) or sent by express overnight courier service, or (ii) two (2) business days after deposit in the mail if mailed by regular mail (postage prepaid).

The address of Licensor shall be as follows:

Rise (Tianjin) Education Information Consulting Co., Ltd.  
Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West  
Road, Airport Economic Zone, Tianjin, China  
Attention: SUN Yiding

The address of Licensee shall be as follows:

Beijing Step Ahead Education Technology Development Co., Ltd.  
No. C01-1, 4/F, 42 Beiyuan Road, Chaoyang District, Beijing, China  
Attention: SUN Yiding

**12. COUNTERPARTS.**

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original, and such counterparts will together constitute one and the same instrument. A facsimile or e-mail transmission of an executed counterpart signature page will be deemed an original.

*[Signature page follows]*

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the Effective Date.

**RISE (TIANJIN) EDUCATION INFORMATION  
CONSULTING CO., LTD.**

(Corporate Seal)

By: /s/ SUN Yiding \_\_\_\_\_

Name: SUN Yiding

Title: Legal Representative

**BEIJING STEP-AHEAD EDUCATION  
TECHNOLOGY DEVELOPMENT CO., LTD.**

(Corporate Seal)

By: /s/ SUN Yiding \_\_\_\_\_

Name: SUN Yiding

Title: Legal Representative

## CONSULTING SERVICE AGREEMENT

This Consulting Service Agreement (this “**Agreement**”) is entered into as of June 28, 2019 in Beijing, China, by and between:

Party A: Rise (Tianjin) Education Information Consulting Co., Ltd., a limited liability company duly organized and existing under the laws of People’s Republic of China (“**PRC**”), whose mailing address is at Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West Road, Airport Economic Zone, Tianjin, PRC (“**Service Provider**”).

Party B: Beijing Step Ahead Education Technology Development Co., Ltd., a limited liability company duly organized and existing under the laws of PRC, whose mailing address is at No. C01-1, 4/F, 42 Beiyuan Road, Chaoyang District, Beijing, PRC (“**Service Recipient**”).

**Service Recipient** and **Service Provider** are collectively referred to as the “**Parties**” and each as a “**Party**”.

**Whereas:**

1. **Service Provider** is a company focusing on the development and application of interactive teaching methods, capable of providing valuable and sophisticated educational service solutions to educational institutions and teachers, in order to help students make progress in their studies in reading, languages, arts, mathematics, social studies and science;
2. **Service Recipient**, as a company with adequate financial and other resources in the field of English teaching and training for children, wishes to receive consulting and supporting services in the field of interactive education solutions, and Service Provider wishes to provide such services in accordance with the terms and conditions of this Agreement;
3. **Service Recipient** will enter into franchise agreements with third-party cooperative learning centers (“**Cooperative Learning Centers**”) to license the Cooperative Learning Centers to use the “Rise” brand and relevant intellectual properties, and provide teaching plan system services, continuous research services in respect of intangible assets and other services, and hereby collects franchise fee (“**Franchise Fee**”) from Cooperative Learning Centers.

NOW, THEREFORE, through friendly consultations, the Parties hereby agree as follows:

## 1. Scope of Services

Service Provider shall provide the following services (the “**Services**”) to Service Recipient in accordance with the terms and conditions of this Agreement during the term of this Agreement:

- formulating the targets and annual plans for Service Recipient on the development of teaching plans (courseware);
- reviewing the specific development plans and budgets of the academic department of Service Recipient;
- reviewing and confirming the results of courseware development of Service Recipient; and
- decision-making with respect to the roll-out of newly-developed teaching plans and courseware, etc.

## 2. Service Fee

Service Recipient shall pay to Service Provider service fees (“**Service Fee**”) (inclusive of all applicable taxes) for the Services on a quarterly basis. Service Fee, as part of the Franchise Fee, shall amount to four percent (4%) of the tuition fees collected by Cooperative Learning Centers from their students.

## 3. Intellectual Property

All the rights, ownership and interests of intellectual properties created or derived from the process of the performance of this Agreement, including but not limited to, copyrights, patents, patent applications, trademarks, trademark applications, software, know-how, technology data and commercial secrets, regardless of whether being developed or created by Service Provider and/or Service Recipient, shall be exclusively and solely owned by Service Provider.

## 4. Representations and Warranties

4.1 Service Provider hereby represents and warrants to Service Recipient as follows:

4.1.1 Service Provider is a limited liability company duly organized and existing under the laws of the PRC.

4.1.2 Service Provider has legal rights to execute and perform this Agreement. The execution and performance of this Agreement by Service Provider does not contravene the articles of association or other constitutional documents of Service Provider. Service Provider has obtained all necessary and appropriate approvals and authorizations to execute and perform this Agreement.

4.1.3 The execution and performance of this Agreement by Service Provider will not violate any provisions of laws and regulations, governmental approvals, authorizations, notifications, or any other regulatory documents binding or affecting Service Provider, and will not violate any of its agreements with, or commitments to, any third party.

4.1.4 This Agreement constitutes legal, valid and enforceable obligations of Service Provider.

4.2 Service Recipient hereby represents and warrants to Service Provider as follows:

4.2.1 Service Recipient is a limited liability company duly organized and existing under the laws of the PRC.

4.2.2 Service Recipient has legal rights to execute and perform this Agreement. The execution and performance of this Agreement by Service Recipient does not contravene the articles of association or other constitutional documents of Service Recipient. Service Recipient has obtained all necessary and appropriate approvals and authorizations to execute and perform this Agreement.

4.2.3 The execution and performance of this Agreement by Service Recipient will not violate any provisions of laws and regulations, governmental approvals, authorizations, notifications, or any other regulatory documents binding or affecting Service Recipient, and will not violate any of its agreements with, or commitments to, any third party.

4.2.4 This Agreement constitutes legal, valid and enforceable obligations of Service Recipient.

## **5. Confidentiality**

The Parties covenant and confirm that any verbal or written communications relating to this Agreement between the Parties shall be confidential information. Neither Party may disclose any confidential information of the other Party without prior written consent from the other Party, except that: (a) relevant information has been made public (not as a result of any fault or disclosure by the information recipient);(b) such disclosure is required under applicable laws or regulations or rules of securities regulators; or (c) information relating to the transactions under this Agreement is disclosed to the legal or financial advisers of either Party who are bound by the confidentiality obligations similar to the obligations under this provision. Any employees of one Party disclosing any confidential information shall be deemed as the Party disclosing confidential information and such Party shall be liable therefor under this Agreement. This clause shall survive the termination of this Agreement.

## **6. Effectiveness and Term of this Agreement**

This Agreement shall be executed and effective as of the date set forth above in this Agreement. The term of this Agreement shall be five (5) years. This Agreement shall be renewed automatically for another five years upon expiration unless a Party notifies in writing the other Party of the termination within thirty (30) days prior to the expiration. This Agreement may be terminated in advance through friendly consultations by the Parties.

## **7. Indemnification**

Service Recipient shall indemnify Service Provider for any liability arising from services provided by Service Provider in accordance with this Agreement or upon the requests of Service Recipient, including but not limited to, any damages or losses arising out of any litigation, accusation, arbitration or petition instituted by any third party, or, any administration investigation or penalty or sanction. Notwithstanding the foregoing, Service Recipient shall not indemnify Service Provider for any damages or losses resulting from Service Provider's willful misconduct or gross negligence.

## **8. Governing Law and Dispute Resolution**

- 8.1. The conclusion, effectiveness, interpretation, performance, modification and termination of this Agreement and resolution of disputes under this Agreement shall be governed by PRC laws.
- 8.2. The Parties shall seek to resolve all the disputes arising from or in connection with this Agreement through friendly consultation. In the event that any dispute cannot be resolved through such consultation within 30 days upon the notification given by one Party to the other Party requesting such consultation, such dispute shall be submitted to the China International Economic and Trade Arbitration Commission, Beijing Headquarters ("CIETAC") for arbitration. The arbitration proceedings shall be conducted in Beijing in Chinese pursuant to CIETAC's then effective arbitration rules. The arbitration tribunal shall consist of three arbitrators. The applicant, on one hand, and the respondent, on the other hand, shall each designate an arbitrator, and the Parties shall jointly designate the third arbitrator. The arbitral award shall be final and binding upon the Parties.
- 8.3. During the period when a dispute persists, the Parties shall continue to exercise the rights and perform the obligations under this Agreement, except for those rights or obligations directly relating to the dispute.

## **9. Payment**

Unless otherwise expressly stated, each payment to be made by Service Recipient to Service Provider under this Agreement shall be made in Renminbi. Service Recipient shall transfer the relevant amount into the relevant account in immediately available funds on the date on which the payment is due.

Service Recipient may make payments under this Agreement to such other account as Service Provider shall, not less than three (3) business days before the date on which the payment is due, have specified by giving notice to Service Recipient for the purpose of that payment.

## 10. Notice

Any notices, claims, certificates, requests, requirements and all other communications permitted or required to be given under this Agreement shall be in writing and delivered to the other Party by hand delivery, facsimile, or regular courier with postage prepaid. A notice, claim, certificate, request, requirement or any other communication permitted or required to be given under this Agreement shall be deemed as properly given or made (i) when delivered, if hand delivered, (ii) when the transmission confirmation is received, if sent by facsimile, and (iii) on the fifth day after the dispatch of the courier, if sent by regular courier with postage prepaid.

## 11. Miscellaneous

- 11.1 Neither Party has the right to assign any of its rights, obligations and/or liabilities arising from this Agreement to any third party without prior written consent of the other Party.
- 11.2 The conclusion and the performance of this Agreement shall not be deemed as the relationship of joint venture or partnership between the Parties or cause one Party to be liable for the other Party's action or omission, or cause one Party to become the agent for the other Party. Neither Party has the right to represent the other Party as its agent, or act in the name of the other Party, or bind the other Party through other methods beyond this Agreement.
- 11.3 If any provision of this Agreement is held invalid or unenforceable, then such provision shall (so far as it is invalid or unenforceable) be given no effect and shall be deemed not to be included in this Agreement without invalidating any of the remaining provisions of this Agreement. The Parties shall then use all reasonable endeavors to replace the invalid or unenforceable provisions by a valid and enforceable substitute provision, the effect of which is as close as possible to the intended effect of the invalid or unenforceable provision.
- 11.4 Notwithstanding anything contained herein, this Agreement shall not be amended or modified unless agreed by both Parties in writing.
- 11.5 This Agreement is written in Chinese and executed in two (2) original copies and each Party shall hold one original copy. Both original copies shall have the same legal effect.

*[The remainder of this page is left blank]*

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date first above written.

**Rise (Tianjin) Education Information Consulting Co., Ltd.**

(Corporate Seal)

By: \_\_\_\_\_

Name: SUN Yiding

Title: Person in Charge

**Beijing Step Ahead Education Technology Development Co., Ltd.**

(Corporate Seal)

By: \_\_\_\_\_

Name: SUN Yiding

Title: Legal Representative

## LICENSE AGREEMENT

This license agreement (this “**Agreement**”) is entered into as of [Date] (the “**Effective Date**”) by and between Rise (Tianjin) Education Information Consulting Co., Ltd. (“**Licensor**”), and [●] (“**Licensee**”). Licensor or Licensee are referred to individually as a “**Party**” and, collectively, as the “**Parties**”.

WHEREAS, by virtue of a license agreement (as amended from time to time thereafter and certain sublicense agreements under such license agreement, if any) between Rise Education International Limited (“**Rise HK**”) and the Licensor as of June 28, 2019 (the “**RISE License Agreement**”), the Licensor has obtained certain licensed rights;

WHEREAS, the Licensee is an English language Learning Center (as defined below) in the PRC;

WHEREAS, the Licensor agrees to sub-license the relevant rights to the Licensee in accordance with the terms of this Agreement;

NOW, THEREFORE, in consideration of the mutual promises set forth herein, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

## 1. **DEFINITIONS**

1.1 “**Affiliate**” means, with respect to any Person, any other Person that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person, and the term “control” (including the terms “controlled by” and “under common control with”) means (i) the possession, directly or indirectly, of the power to direct the management or policies of a Person, whether through the ownership of voting securities, by contract relating to voting rights or corporate governance, or otherwise, or (ii) the ownership, directly or indirectly, of at least fifty percent (50%) of the voting securities or other ownership interest of a Person (or, with respect to a limited partnership or other similar entity, its general partner or controlling entity). Further, a Person will only be deemed an Affiliate hereunder for so long as such person or entity satisfies the above requirements for qualifying as an Affiliate.

1.2 “**Agreement**” is defined in the preamble.

1.3 “**Attribution Language**” means the following or reasonably similar attribution statement: “Foundational content provided by Houghton Mifflin Harcourt.”

1.4 “**China**” or the “**PRC**” means the People’s Republic of China, which, for the purpose of this Agreement, excludes Hong Kong, Macau, and Taiwan.

1.5 “**Confidential Information**” means any information disclosed by either Party (the “**Disclosing Party**”) that the Disclosing Party has either marked as confidential or proprietary, or has identified in writing as confidential or proprietary within thirty (30) days of disclosure to the other Party (the “**Receiving Party**”) or that would be apparent to a reasonable person familiar with the Disclosing Party’s business and the industry in which each operates to be of a confidential or proprietary nature, the maintenance of which is important to the Disclosing Party; *provided, however*, that information relating to or regarding a Disclosing Party’s business plans, strategies, technology, research and development, current or prospective customers, billing records, or products or services will be deemed Confidential Information of the Disclosing Party even if not so marked or identified, unless such information is the subject of any of the exceptions set forth in the following sentence. Information will not be deemed Confidential Information hereunder if such information: (a) is known to the Receiving Party prior to its receipt from the Disclosing Party, directly or indirectly from a source other than a party having an obligation of confidentiality to the Disclosing Party; (b) becomes known (independently of the disclosure by the Disclosing Party) to the Receiving Party directly or indirectly from a source other than a party having an obligation of confidentiality to the Disclosing Party; (c) becomes publicly known or otherwise ceases to be secret or confidential, except through a breach of this Agreement by the Receiving Party; or (d) is independently developed by the Receiving Party without reference to the Disclosing Party’s Confidential Information. Unless such information is the subject of any of the exceptions set forth in the immediately preceding sentence, (e) Licensee’s Confidential Information includes information received or reviewed by Licensor in exercising its audit rights (described below in Section 7.3) and (f) the source codes and associated technical files of any software included in any HMH Product, Customized Product, Rise Product, or Original Works; *provided, however*, that nothing in this Agreement shall prevent either Party from using and disclosing information received or reviewed by it in exercising its audit rights or for purposes of enforcing its rights under this Agreement.

1.6 “**Customize(d)(ation)**” means to create a Customized Product, as defined below.

1.7 “**Customized Product(s)**” means any products or services containing, derived from, or developed by or on behalf of Licensee, its licensors and their permitted direct or indirect sub-licensees based on, any HMH Products, including but not limited to HMH ELL Other Products Derivative Works and the material listed in Exhibit A-4 attached hereto under the heading “Customized Products”.

1.8 “**Destination Marks**” means any and all of the trademark registrations and applications thereof listed on Exhibit A-2 attached hereto, and any other trademarks consisting of or including the word “DESTINATION”.

1.9 “**Effective Date**” is defined in the preamble.

- 1.10 “**ELL**” or “**English Language Learning**” means studies (i.e., teaching and learning) in the English language for the primary purpose of teaching the English language to non-native English speaking students.
- 1.11 “**ELL Field**” means English Language Learning where (a) part of the instruction is received by each student while physically present in a Learning Center, (b) the instruction is in addition to a regular academic program or other traditional schooling and (c) tuition for the instruction is the responsibility of the student or the student’s parent/guardian. The ELL Field will not include the provision of ELL as part of a school curriculum.
- 1.12 “**Excluded Third Party**” means Pearson, McGraw Hill, Scholastic, K12 Inc., Scantron/Global Scholar, MacMillan, or any affiliate of any of the foregoing.
- 1.13 “**Existing Third Party Licenses**” means the agreements listed on Exhibit B attached hereto, with such terms and conditions as are in effect on the Effective Date, and shall not include any amendment, supplement, or renewal thereof that is not permitted under the Rise License Agreement.
- 1.14 “**Existing Third Party Rights**” means those rights and licenses in existence on the Effective Date granted by HMH or an Affiliate under the Existing Third Party Licenses that conflict with any rights or licenses granted to Licensor under the Rise License Agreement without any amendment, supplement, or renewal thereof other than a renewal thereof by the counterparty to an Existing Third Party License in accordance with the terms thereof in existence on the Effective Date (e.g., in the case of a right of such counterparty to renew if such counterparty has paid a required minimum royalty or otherwise met the conditions for a renewal).
- 1.15 “**GAAP**” means the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.
- 1.16 “**Golden Master(s)**” means a final version of a publication, software or artwork, of a quality appropriate for mass reproduction.
- 1.17 “**Governmental Body**” means any government or governmental or regulatory body thereof, or political subdivision thereof, whether central, local or foreign, or any agency, instrumentality or authority thereof, or any court or arbitral tribunal (public or private).
- 1.18 “**HMH**” means Houghton Mifflin Harcourt Publishing Company.
- 1.19 “**HMH ELL Destination Product(s)**” means only those products listed in Exhibit A-1 attached hereto under the heading “HMH ELL Destination Products”, distinguished by copyright date and International Standard Book Number (ISBN), and the pictorial works listed on Exhibit A-1 attached hereto under the heading “HMH ELL Destination Products Pictorial Works”.

- 1.20 “**HMH ELL Other Backlist Products**” means only the products that are listed in Exhibit A-1 attached hereto under the heading “HMH ELL Other Backlist Products”.
- 1.21 “**HMH ELL Other Frontlist Product**” means only the products that are listed in Exhibit A-1 attached hereto under the heading “HMH ELL Other Frontlist Products”.
- 1.22 “**HMH ELL Other Product(s)**” means, collectively, HMH ELL Other Backlist Products, HMH ELL Other Frontlist Product, and any material listed in Exhibit A-1 attached hereto, under the heading “HMH ELL Other Products”.
- 1.23 “**HMH ELL Other Products Derivative Works**” means any derivative work of any HMH ELL Other Products that is adapted for use in the ELL Field and is based on portions, but not all, of the applicable HMH ELL Other Products such that the resulting derivative work would not be a reasonable substitute for the original HMH ELL Other Product.
- 1.24 “**HMH ELL Products**” means, collectively, HMH ELL Destination Products and HMH ELL Other Products.
- 1.25 “**HMH Products**” means, collectively, HMH ELL Products.
- 1.26 “**Learning Center**” means a facility at which students are provided with academic enrichment opportunities other than a regular academic program or other traditional schooling, and/or additional activities designed to complement their regular academic program, in consideration for a fee for the services offered in these centers that is the responsibility of a student or parent, guardian or other representative of the applicable student.
- 1.27 “**Licensed Material**” means the material licensed under this Agreement, as referenced in Exhibit A attached hereto under the heading “Licensed Material”.
- 1.28 “**Licensed Rights**” means those rights licensed under this Agreement, as listed in Exhibit A attached hereto under the heading “Licensed Rights” and referenced in Section 2. In the event of any discrepancy between the Licensed Rights listed in Exhibit A and the provisions of Section 2, Exhibit A shall prevail.
- 1.29 “**Original Works**” means the original works owned by or licensed to Licensor listed in Exhibit A-4 attached hereto under the heading “Original Works”.
- 1.30 The terms “**Party**” and “**Parties**” are defined in the preamble.
- 1.31 “**Person**” means any individual, corporation, limited liability company, partnership, firm, joint venture, association, joint stock company, trust, unincorporated organization, Governmental Body or other entity.

1.32 "**Pre-K/K Curriculum Offering**" means the study (i.e., teaching and learning) of a curriculum for the pre-kindergarten grade and kindergarten grade levels where (a) part of the instruction is received by each student while physically present in a Learning Center and (b) tuition for the instruction is the responsibility of the student or the student's parent/guardian.

1.33 "**Rise Marks**" means any and all of the registered trademarks listed on Exhibit A-3 attached hereto under the heading "Rise Marks".

1.34 "**RISE License Agreement**" is defined in the preamble.

1.35 "**Rise Products**" means the products and services bearing one or more of the Rise Marks.

1.36 "**Royalties**" means the royalties as defined in Schedule 1, as amended from time to time by the Parties.

1.37 "**Sales**" means gross sales recognized in accordance with GAAP.

1.38 "**Sell-Off Rights**" is defined in Section 11.2.

1.39 "**Software**" means the materials listed on Exhibit A-1 attached hereto under the heading "Software".

1.40 "**Territory**" means only the geographic area named under the heading "Territory" in Exhibit A attached hereto.

1.41 "**Term**" is defined in Section 10 below.

1.42 "**Third Party**" means any Person other than Licensor, Licensee or an Affiliate of any Party.

## **2. LICENSED RIGHTS**

### **2.1 Reservation of Rights.**

- (a) Licensee shall have only those rights that are expressly granted herein, subject to the terms and conditions of this Agreement and the rights and limitations under the Rise License Agreement. All other rights are expressly reserved by Licensor and its licensors (including HMMH);
- (b) Except as expressly provided herein, Licensee shall not copy, modify, reproduce, display, decompile, store, translate, sell, lease or otherwise transfer, distribute or use the Licensed Material without Licensor's express prior written consent;

- (c) Licensee hereby acknowledges and agrees that: (i) Licensor and its licensors (including HMM) has all rights, title and interest in and to all intellectual property rights in and to their respective Licensed Material (ii) Licensee will not acquire any right, title or interest in or to any intellectual property rights in and to the Licensed Material, by implication, estoppel or otherwise, other than the express license rights granted pursuant to this Agreement.

2.2 **Rights Granted to Licensee.** Subject to the terms and conditions of this Agreement, and to the Existing Third Party Rights, Licensor hereby grants to the Licensee those Licensed Rights listed in Exhibit A attached hereto.

2.3 **No Sub-Licensing.** Licensee may not sublicense the rights under this Agreement to any Person (except for distributing Software by virtue of Section 2.2).

2.4 **Expenses.** Licensee will bear all costs and expenses of manufacturing, marketing and distributing the Customized Products.

### 3. **ROYALTIES**

3.1 **Payment of Royalties.** In consideration for the Licensed Rights and other rights granted to Licensee under this Agreement, Licensee shall pay to Licensor the Royalties (inclusive of taxes) in accordance with Schedule 1. Licensor will have the right to waive, in part or in whole, any Royalty payment in its sole discretion upon written notice to Licensee.

3.2 **Interest.** Any Royalty payment due and payable but that has not been paid to Licensor when due for any reason will accrue until paid, and such accrued Royalty payment will be subject to an interest charge. The interest will accrue and be compounded daily beginning on the day immediately following the day on which such Royalty payment is due and continuing until the date on which such Royalty payment is made. The rate of such interest shall be five percent (5%) per annum. Licensor will have the right to waive, in part or in whole, any interest accrued on any outstanding Royalty payment or interest charged in its sole discretion upon written notice to Licensee.

3.3 **Adjustment.** The Parties agree that Licensor will have the right to review the adequacy of the Royalties at the end of each calendar year during the term of this Agreement (or more frequently as commercially reasonable as determined by Licensor) and adjust the Royalties payable under Section 3.1 above, subject to changes in market conditions, upon written notice to Licensee.

### 4. **COPYRIGHT AND TRADEMARK NOTICES AND TITLE.**

4.1 **Standards.** Licensee's utilization in any way of the rights granted pursuant to this Agreement is subject to Licensor's and its Licensor's standards as set forth herein and as may from time to time be communicated to Licensee.

4.2 **Proprietary Rights Notices.** Any sale of a Customized Product shall include the copyright, trademark and other proprietary rights notices as are contained on the Golden Masters of such Customized Product (including the documentation) or as may be specified from time to time by Licensor.

4.3 **Title to Products.** The Licensee shall acquire no right, title or interest in or to the Licensed Material; Licensor shall retain all rights, title and interest in and to the Customized Products, including all related intellectual property rights to the Customized Products. Licensee shall not reverse engineer or decompile any of the Licensed Material.

4.4 **Work Made under Entrustment;** Assignment of Intellectual Property Rights. Licensee acknowledges that it has no authority to develop derivative works of the Licensed Material or any Customized Products. However, in the event of Licensee developing Customized Products, subject to Section 4.3, each Customized Product shall be deemed to be a “work made under entrustment” for Licensor within the meaning of the applicable PRC laws, and shall be the exclusive property of Licensor. To the extent any Customized Product is not eligible to be a “work made under entrustment” or Licensee retains any right, title and interest in and to the Customized Products, Licensee hereby irrevocably assigns to Licensor all of Licensee’s right, title and interest therein and thereto. Upon Licensor’s request, Licensee will execute and deliver any other documents reasonably requested by Licensor and do all things that Licensor reasonably deems necessary or desirable in order to consummate and record such assignment or as required in the future to ensure the continued ownership by Licensor of all Customized Products. Licensor hereby grants a license to Licensee of Customized Products and related materials under the same terms and conditions (including restrictions of the field and the Territory) as the Licensed Rights granted in Section 2.2 of Customized Products. Licensor is a third-party beneficiary of the aforementioned Section, with full power and authority to enforce it.

## 5. **QUALITY CONTROL**

5.1 **Standards.** Licensee hereby acknowledges the importance to Licensor and its licensors (including HMH) of their reputations and goodwill and the concomitant importance of maintaining high standards of quality in their respective Destination Marks, the Houghton Mifflin Harcourt brand, Rise Marks, the Rise brand, and producing, distributing and selling the HMH Products, Customized Products and Rise Products. Licensee shall have any and all products and services offered and otherwise commercially exploited under the licenses pursuant to this Agreement (i) at the highest level of quality reasonably marketable, but in any event will not be required to exercise levels of quality in excess of those used by Licensor and its licensors (including HMH) in connection with similar works and (ii) in a manner that is reasonably expected to maintain or enhance the value and reputation of the applicable trademark or brand of Licensor and its licensors (including HMH).

5.2 **Approval.** In connection with Licensee's exercise of rights pursuant to this Agreement, Licensee shall provide, for Licensor's approval, samples of each category of proposed use (including, without limitation, any material deviation from a previously approved category of use) of any Destination Mark, the Houghton Mifflin Harcourt brand, Rise Mark or Rise brand no later than 45 days prior to the proposed use thereof. Licensor shall notify Licensee of its approval, or, if applicable, its basis for non-approval, within 45 days after receipt of the samples described above. Upon approval of a proposed category of use, Licensee may continue to use the applicable trademarks or brands in such manner unless and until the applicable products or services on or in connection with which Licensee uses the applicable trademarks or brands or the proposed use of the applicable trademarks or brands does not continue to meet the above-described quality requirement.

5.3 **Quality Control Covenants.** Licensee undertakes not to commit, or omit, any act or pursue any course of conduct which is reasonably likely to:

- (a) bring any of the Destination Marks, the Houghton Mifflin Harcourt brand, the HMH Products, HMH, the Customized Products, the Rise Marks, the Rise brand, the Rise Products, the Original Works, Rise HK or Licensor into disrepute;
- (b) damage the goodwill or reputation attaching to any of the Destination Marks, the Houghton Mifflin Harcourt brand, the HMH Products, HMH, the Customized Products, the Rise Marks, the Rise brand, the Rise Products, the Original Works, Rise HK or Licensor;
- (c) prejudice the validity or enforceability of any of the Destination Marks, the Houghton Mifflin Harcourt brand, the HMH Products, the Customized Products, the Rise Marks, the Rise brand, the Rise Products or the Original Works; or
- (d) dilute or reduce the value of any of the Destination Marks, the Houghton Mifflin Harcourt brand, the HMH Products, HMH, the Customized Products, the Rise Marks, the Rise brand, the Rise Products, the Original Works or any registrations thereof.

5.4 **Copyright Covenants.** Licensee will comply with applicable copyrights laws and regulations of the PRC, in relation to any and all derivative works of any HMH Products, including the inclusion of any required notices, and shall take whatever steps that are reasonably necessary to protect each such derivative work, including any action required under the PRC laws and regulations.

5.5 **Trademark Covenants.** All use of the Destination Marks and the Houghton Mifflin Harcourt brand by Licensee shall inure to the benefit of HMH. All use of the Rise Marks and the Rise brands shall inure to the benefit of the owner of the Rise Marks. Licensee will not: (a) use any of the Destination Marks, the Houghton Mifflin Harcourt brand, the Rise Marks or the Rise brand outside of the ELL Field or the Territory, (b) register any confusingly similar trademarks or service marks to any of the Destination Marks, the Houghton Mifflin Harcourt brand, the Rise Marks or the Rise brand, (c) take any action intended to interfere with HMH's use or registration of any of the Destination Marks, Harcourt Mark or the Houghton Mifflin Harcourt brand, or Licensor's use or registration of any of the Rise Marks or the Rise brand, or (d) take any action that would be the proximate cause of devaluing, disparaging or otherwise harming the value or goodwill of any of the Destination Marks, the Houghton Mifflin Harcourt brand, the Rise Marks and the Rise brand.

## **6. UNDERTAKINGS OF THE PARTIES**

6.1 **Marketing of the Products.** Subject to the terms of this Agreement, Licensee shall use its best efforts to promote and sell the ELL services described in Section 3 of Exhibit A attached hereto based on the rights granted to it under this Agreement and to develop and maintain market demands for such services. In this regard, Licensee shall deliver to Licensor a detailed annual marketing plan for the Customized Products during the term of this Agreement.

6.2 **Conduct of Business.** Licensee shall conduct its business in a manner that will reflect favorably at all times on the Licensed Material and the good name, goodwill and reputation of Licensor and its licensors (including HMH), and shall avoid deceptive, misleading or unethical practices or advertisements that are or might be detrimental to Licensor and its licensors (including HMH), the Licensed Material, or the public. Licensee will not publish or employ, or cooperate in the publication or employment of, any misleading or deceptive advertising materials.

6.3 **Compliance with Laws.** Licensee will comply with the applicable laws and regulations of the PRC, including, but not limited to, all laws and regulations governing product warranties.

6.4 **Support.** Licensor's only obligation to provide technical support shall be to Licensee directly and not to any Third Party.

### **6.5 Materials**

- (a) Unless otherwise agreed, Licensor will deliver to Licensee, according to a schedule agreed upon by the Parties, the Licensed Material, together with such information and documentation as Licensee may reasonably require in order for it to use the Licensed Material for manufacture and/or distribution and providing services pursuant to the provisions of this Agreement.
- (b) Licensee shall provide written notices to all of its employees and others who use the HMH Product for distribution and provision of services that the HMH Products are owned by HMH and subject to the terms and conditions, including all restrictions, of this Agreement.
- (c) Except for the trademarks licensed or permitted to be used pursuant to this Agreement, Licensee will remove all trademarks, service marks or other brands owned by HMH or any affiliate of HMH from HMH ELL Products before displaying, performing, publishing, distributing or otherwise making commercially available any such HMH ELL Products.

**7. CONFIDENTIALITY OF INFORMATION AND MATERIAL**

Licensee acknowledges that, in connection with the negotiation of and the transactions contemplated by this Agreement, it will obtain access to the Confidential Information of Licensor and HMH. Licensee shall hold in strict confidence and shall not disclose to others or use, either before or after termination or expiration of this Agreement, the terms of this Agreement or any Confidential Information, including but not limited to computer source codes, except to the extent such disclosure or use is reasonably required to perform Licensee's obligations or exercise or enforce its rights under this Agreement or comply with applicable law. Licensee will treat, and will cause its Affiliates and its and their respective representatives to treat, such Confidential Information confidential, using the same degree of care as Licensee normally employs to safeguard its own confidential information from unauthorized use or disclosure, but in no event less than a reasonable degree of care. Licensee shall, upon termination or expiration of this Agreement, without request, deliver to Licensor any and all drawings, notes, documents and materials (including Licensed Materials) received from Licensor, without charge to Licensor.

**8. REPRESENTATIONS AND WARRANTIES**

8.1 **Licensor**. Licensor represents and warrants that (i) Licensor owns all necessary rights, or has obtained necessary rights, pursuant to the Rise License Agreement and other license or sublicense agreements, to the Licensed Material; (ii) Licensor has the full power and authority to enter into this Agreement, all subject to revisions to rights granted to Licensor for Third Party intellectual properties, where applicable.

8.2 EXCEPT AS SET FORTH IN THIS SECTION, LICENSOR AND ITS LICENSORS (INCLUDING HMH) MAKE NO REPRESENTATION OR WARRANTY WITH RESPECT TO ANY PRODUCT OR THE RELATED DOCUMENTATION AND TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, THE PRODUCTS ARE DELIVERED "AS IS". THE WARRANTY STATED HEREIN IS EXPRESSLY IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY EXPRESS OR IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, AND SUCH WARRANTY CONSTITUTES THE ONLY WARRANTY MADE BY LICENSOR WITH RESPECT TO THIS AGREEMENT OR THE PRODUCTS, ARTICLES, MATERIALS, REPLACEMENT PARTS OR SERVICES TO BE SUPPLIED HEREBY.

### 8.3 **Licensee**

- (a) Licensee represents and warrants that Licensee has full power and authority to enter into this Agreement and that it will comply with all applicable laws in manufacturing, marketing and distributing products based on the Licensed Material.
- (b) Licensee represents and warrants that it has not been finally adjudged by a court of competent jurisdiction in the last five (5) years to be liable for willful copyright infringement or its substantial equivalent under foreign law.
- (c) Licensee represents and warrants that Licensee's exploitation of the Licensed Rights would not, to Licensee's actual knowledge after reasonable inquiry, cause HMH to be in violation of applicable export laws.
- (d) Licensee represents, warrants and covenants that it will not assign or transfer any rights or obligations under this Agreement to any party who has been finally adjudged by a court of competent jurisdiction in the last five (5) years to be liable for willful copyright infringement or its substantial equivalent under foreign law.
- (e) Licensee represents, warrants and covenants that it will not assign or transfer any rights or obligations under this Agreement to any Excluded Third Party.
- (f) Licensee represents, warrants and covenants that it will not assign or transfer any rights or obligations under this Agreement to any party where the grant or exploitation of such rights or obligations would, to Licensee's actual knowledge after reasonable inquiry, cause HMH to be in violation of applicable export laws.

## 9. **INDEMNIFICATION**

### 9.1 **Licensor Indemnity**

- (a) Licensor shall indemnify, defend and hold Licensee harmless from and against all claims, suits, demands, actions and proceedings, judgments, penalties, damages, costs and expenses (including reasonable legal fees and costs), losses or liabilities ("**Damages**") arising out of a claim that any Damages incurred by Licensee resulting from a breach by Licensor of any representation, warranty or other provision of this Agreement, and Licensor will pay the costs and damages finally awarded in any suit or proceeding.
- (b) Licensor shall not be obligated to defend or be liable for costs and/or damages under this Section 9 if the alleged infringement arises out of or is in any manner attributable to any modification of any Licensed Material by Licensee.

9.2 **Licensee Indemnity**. Licensee shall indemnify and hold Licensor and its licensors (including HMH) harmless from and against all Damages which may arise or result (a) from the marketing or distribution by Licensee of the Customized Products, (b) from any Damages incurred by Licensor as a result of any sale of any Customized Product outside of the geographic scope and outside the scope of the rights granted pursuant to this Agreement, and (c) from any Damages incurred by Licensor resulting from a breach by Licensee of any representation, warranty or other provision of this Agreement.

9.3 **Claims.** With respect to any claims falling within the scope of the foregoing indemnifications: (a) each Party agrees to notify the other Party promptly and keep the other Party fully advised of such claims and the progress of any suits in which the other Party is not participating; (b) Licensor shall have the right to assume, at its expense, the defense of a claim or suit made or filed against Licensee by a party other than Licensor; and (c) if Licensor does not represent Licensee in any claim or suit for which Licensor is obligated to indemnify Licensee pursuant to Section 9.1, Licensor shall pay Licensee's reasonable and documented legal costs and expenses in defense of such a claim. Licensee shall not settle such claim or suit without the prior written approval of Licensor, which approval will not be unreasonably withheld or delayed.

9.4 **LIMITATION OF LIABILITY.** NEITHER PARTY NOR LICENSOR'S LICENSORS (INCLUDING HMH) SHALL BE LIABLE TO ANY PARTY HERETO FOR LOST PROFITS, LOSS OF DATA OR ANY COLLATERAL, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OF ANY KIND WITH RESPECT TO THIS AGREEMENT.

#### **10. TERM OF AGREEMENT; RENEWAL**

Unless earlier terminated pursuant to this Agreement, the term of this Agreement will commence on the Effective Date and continue for five (5) years. This Agreement will be renewed automatically for successive five (5)-year periods, unless both Parties agree to terminate it in writing (the initial term and all renewal terms, collectively, the "**Term**").

#### **11. TERMINATION**

11.1 **Termination for Cause.** Either Party may terminate this Agreement for cause as follows:

- (a) **Bankruptcy.** Either Party may immediately terminate this Agreement upon written notice to the other Party in the event that proceedings in bankruptcy or insolvency are instituted by or against the other Party, or a receiver is appointed, or if any substantial part of the assets of the other Party is the object of attachment, sequestration or other type of comparable proceeding, and such proceeding is not vacated or terminated within sixty (60) days after its commencement or institution.
- (b) **Material Breach.** Either Party may terminate this Agreement if the other Party commits a material breach of any of the terms or provisions of this Agreement and does not cure such breach within thirty (30) days after receipt of written notice of said material breach given by the non-defaulting Party.

- (c) **Termination for Cessation of Business.** Upon not less than thirty (30) days prior written notice, Licensor may terminate this Agreement if Licensee ceases to carry on its business or substantially all of its business, and the rights granted to Licensee hereunder cease to be utilized, unless a successor or assign of Licensee has succeeded to, and is conducting the business or substantially all of the business of, Licensee. Licensee shall have the right to recommence its business or substantially all of its business within such thirty (30)-day period, and, if Licensee so recommences its business, such termination shall not occur.

11.2 **Rights upon Termination.** Upon the termination of this Agreement for any reason, Licensee shall return or destroy Licensor's and HMH's Confidential Information provided hereunder, and Licensee will return to Licensor all of the Licensed Material. So long as termination was not due to breach of this Agreement by Licensee, Licensee will have the right for a period of five (5) years following any such termination to sell its remaining inventory of print publications produced under the license rights set forth hereunder prior to the date of termination (the "**Sell-Off Rights**"); *provided that* Licensee will discontinue all sales of all such products and any derivative works thereof immediately upon the expiration of the Sell-Off Rights. Except as otherwise expressly provided in this section, no consideration, or indemnity shall be payable to the Licensee either for loss of profit, goodwill, creation of clientele or other like or unlike items, nor for advertising costs, costs of samples or supplies, termination of employees, employees' salaries and other like or unlike items.

11.3 **Survival of Terms.** Sections 1, 4.3, 4.4, 5.5, 7, 8, 9, 11.2, 11.3, 12 and 14 of this Agreement shall survive the termination of this Agreement.

## 12. **BOOKKEEPING OBLIGATIONS AND INSPECTION RIGHTS**

12.1 Licensee shall, upon Licensor's request or at least annually, report to Licensor the following: (i) a list of all of the Licensed Material that has been used in any products or services sold by Licensee, including details regarding which entity used each such Licensed Material and how such Licensed Material was used; and (ii) a detailed revenue report showing the Sales of Licensee and a full breakdown of its sales revenues for the Licensed Material and any products/services derived therefrom, by product. Licensee will also notify Licensor in writing when it and each of its sub-licensees commences using any Licensed Material that has not been previously used by the applicable entity; such notice to be delivered within 30 days after the applicable use.

12.2 Licensee shall maintain true and complete books of account at its principle place of business containing an accurate record of all data necessary to substantiate compliance with this Agreement by Licensee. Licensor and its designees, including HMH, shall have the right to examine, inspect, copy and audit such books at all reasonable times (but not more than once in each calendar year nor for a period within five (5) years after the period being audited) for the purpose of verifying the accuracy of the reports and computation rendered by Licensee. Upon reasonable advance notice, such examination shall be made during normal business hours at the principle place of business of Licensee.

12.3 Notwithstanding the foregoing, in the event that a material breach of this Agreement is found in the applicable audit, in addition to any and all other rights and remedies that Licensor may have, (a) Licensor will be entitled to an additional audit in the applicable calendar year and (b) the cost of such audit will be borne by the Licensee.

12.4 Before the 10th of each month, Licensee shall provide Licensor with student enrollment data for “Rise Subject English” courses for the preceding month.

### **13. ASSIGNMENT**

This Agreement or any part thereof may not be assigned or transferred by Licensee without the prior written consent of Licensor. Notwithstanding anything herein to the contrary, without the prior written consent of Licensor, Licensee may not assign or transfer this Agreement to any Excluded Third Party or to any Third Party that has been finally adjudged by a court of competent jurisdiction in the last five (5) years to be liable for willful copyright infringement or its substantial equivalent under foreign law. Licensor may assign or transfer its rights and obligations under this Agreement upon prior written notice to Licensee. Subject to the foregoing, this Agreement will be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns.

### **14. MISCELLANEOUS**

14.1 **Entire Agreement.** This Agreement contains the entire understanding of the Parties hereto relating to the Licensed Rights, supersedes any prior written or oral agreement or understanding, including any sub-licenses existing at the time of the execution of this Agreement, between the Parties with respect to the Licensed Rights, and may not be amended or terminated verbally. This Agreement may be amended only by a writing signed by the Parties hereto.

14.2 **Enforceability.** The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement.

14.3 **Successors.** All rights and obligations arising out of this Agreement shall inure to the benefit of, and be binding on and enforceable by, the Parties and their respective successors and permitted assigns.

14.4 **Currency.** All references to currency herein are to the Renminbi.

14.5 **Dispute Resolution.** The Parties shall seek to resolve all the disputes, claims or controversies arising from or in connection with this Agreement through friendly consultation. In the event that any dispute cannot be resolved through such consultation, such dispute shall be submitted to the Beijing Arbitration Commission (“**BAC**”) for arbitration pursuant to the then effective arbitration procedures and rules of BAC. The arbitral award shall be final and binding upon the Parties.

14.6 **Notices.** All notices or other communications required or permitted to be given pursuant to this Agreement shall be in writing and shall be considered as properly given or made (a) when received, if hand delivered, sent by facsimile transmission (the receipt of which is confirmed) or sent by express overnight courier service, or (b) two (2) business days after deposit in the mail if mailed by regular mail (postage prepaid).

The address of each Party for notice purposes shall be as follows:

if to Licensor, to:

Rise (Tianjin) Education Information Consulting Co., Ltd.

Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West Road,

Airport Economic Zone, Tianjin, PRC

Attention: SUN Yiding

if to Licensee, to:

[Name]

[Address]

Attention: [●]

or to such other address as any such Party may have designated by like notice forwarded to the other Party hereto.

14.7 **Affiliates.** The rights granted to Licensor under this Agreement shall be deemed to include all Affiliates of Licensor.

14.8 **Press Releases.** Licensee shall not make any public announcement or issue any press release relating to this Agreement or the services to be provided in connection therewith without the prior written consent of Licensor.

14.9 **Third-Party Beneficiary.** HMH is a third-party beneficiary to this Agreement, with full power and authority to enforce its terms and conditions against the Licensee, but only in connection with the protection of its interests in the HMH Products, Destination Marks and Attribution Language. In connection with such enforcement, Licensee consents to the exclusive jurisdiction of the state and federal courts in the State of New York, United States of America.

14.10 **Registration/Recordation and Submission of Agreement.** Subject to the provisions herein and notwithstanding anything to the contrary in Section 7, in the event that a Party is required to disclose this Agreement (or any portion of this Agreement) to a Governmental Body under applicable laws or as reasonably necessary for enabling payments between the Parties under applicable laws, such Party shall provide prior written notice to the other Party of such disclosure requirement, and the Parties shall cooperate in good faith to prepare and execute an abbreviated license agreement in form and substance reasonably acceptable to both Parties, solely for purposes of such disclosure, and any other documents in connection with such disclosure required by such Governmental Body, and submit to such Governmental Body such abbreviated license agreement along with such documents required by such Governmental Body. Notwithstanding the existence of any such executed abbreviated license agreement or other document, the terms and conditions of this Agreement shall control in all respects in the event of any conflicting terms and conditions or dispute regarding the interpretation, applicability or enforcement of such abbreviated license agreement or other document.

**15. COUNTERPARTS**

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original, and such counterparts will together constitute one and the same instrument. A facsimile or e-mail transmission of an executed counterpart signature page will be deemed an original.

*[Signature page follows]*

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the Effective Date.

**Rise (Tianjin) Education Information Consulting** [●]

**Co., Ltd.**

(Corporate Seal)

(Seal)

Date: [●]

Date: [●]

## SCHEDULE 1

**1. Royalties.** During the term of this Agreement, Licensee shall pay to Licensor a percentage (as agreed upon between both Parties) of Licensee's revenues on a quarterly basis as Royalties ("**Royalties**"). The specific percentage will be agreed upon consultation between the Parties and set forth in a letter of confirmation in the form of Annex 1-1.

The Royalties shall be paid on a quarterly basis. Licensee shall pay the Royalties for the preceding quarter in accordance with a written payment instruction of Licensor during each quarter.

Letter of Confirmation on the Amount of Royalties

Reference is made to the License Agreement (the “Agreement”), dated as of [Date] by and between Rise (Tianjin) Education Information Consulting Co., Ltd. (“**Licensor**”) and [●] (“**Licensee**”). Pursuant to Section 3 and Schedule 1 of the Agreement, Licensor and Licensee hereby agree that the amount of the Royalties for the [●] quarter of 20[●] shall be set at [●]% of the revenues booked by Licensee during the quarter, amounting to RMB[●] ([●] [in letters]).

The above-referenced Royalties shall be paid by Licensee to the account designated by Licensor not later than [Date] in accordance with a written payment instruction of Licensor.

**Rise (Tianjin) Education Information Consulting Co., Ltd.** [●]  
(Corporate Seal) (Seal)

[Date]

Exhibit A

1. Territory: PRC
2. Licensed Material:
  - a. HMH Products
  - b. Software
  - c. Destination Marks
  - d. Attribution Language
  - e. Rise Products
  - f. Rise Marks
  - g. Customized Products
  - h. Original Works
3. Licensed Rights:

Licensors hereby grants Licensee the rights set forth in Sections 3(a)-(i) below, subject to the restrictions set forth in this Agreement and Section 3(j) below:

- (a) use, display, perform, promote, distribute and sell the HMH ELL Destination Products as a non-exclusive, royalty-bearing license as part of the English Language Learning services in the Territory;
- (b) use, display, perform, promote, distribute and sell the HMH ELL Other Products (limited to those included in any derivative works of the HMH ELL Other Products) as a non-exclusive, royalty-bearing license as part of the English Language Learning services in the Territory;
- (c) in the exercise of the above license rights, offer Pre-K/K Curriculums to the Learning Centers as a non-exclusive license of the ELL services available at such Learning Centers. Such Pre-K/K Curriculums may be used or otherwise embedded in (without changing its form, that is, without creating a derivative product prior to using such HMH Products) related license (clearly identified related HMH Products) without quantitative limitations, *provided that* such Pre-K/K Curriculums are presented in English.

- (d) a non-exclusive, royalty-bearing license to display, implement and distribute any Software (in object code form) and related end-user documentation that is solely or as part of other Software products in the ELL Field in the Territory for the sole purpose of using the HMH ELL Products and HMH ELL Other Products pursuant to Sections 3(a)-(c) above.
- (e) a non-exclusive, royalty-bearing license to use Destination Marks in promoting or marketing any product or service in ELL Field in the Territory.
- (f) non-exclusive, royalty-bearing rights to use Attribution Language in advertising and promoting any of the following products or services in ELL Field in the Territory before October 4, 2021: more than 50% of the contents of the products or services are sourced from HMH ELL Products, measured by a single book, in terms of curriculums or pages.
- (g) a non-exclusive, royalty-bearing license to use, display, perform, publish, distribute or sell Rise Marks in ELL Field in the Territory.
- (h) a non-exclusive, royalty-bearing license to use, display, perform, publish, distribute or sell Customized Products as ELL services in ELL Field in the Territory.
- (i) a non-exclusive, royalty-bearing license to use, display, perform, publish, distribute or sell Original Works as ELL services in ELL Field in the Territory.
- (j) other Limitations:
  - (i) Licensee shall have only those rights that are expressly granted herein, subject to the terms and conditions of this Agreement. All other rights are expressly reserved by Licensor and/or HMH.
  - (ii) All rights granted herein are subject to the rights and limitations of the Rise License Agreement.
  - (iii) All rights granted herein are subject to an existing prior license granted to Reader China Group Ltd. with respect to the operation of a Learning Center in the Territory, that is, the Existing Third Party Rights in Section 2.2.
  - (iv) Licensee may view, use and/or otherwise make use of up to one-third (1/3) of any HMH ELL Other Frontlist Product (measured by title, hour, grade level and curriculum type) to promote or develop any of Licensee's ELL Curriculums.

- (v) Promoting or Marketing of School Products. Licensee will not promote or market any of its products or services as part of any school products or services in exercising its license rights described above in Section 3(a)-(i).
- (vi) Use of HMH Property. Licensee shall not use or exploit any HMH Products or any Destination Marks in any manner exceeding the scope of the foregoing license granted.
- (vii) Online Use; Protection of HMH Products. If Licensee makes available any part of any HMH Product over the internet or other electronic network, Licensee will, to the extent commercially reasonable, use reasonable technology to prevent persons or residents outside the Territory from obtaining such HMH Product. The Licensee will use reasonable efforts to prevent any unauthorized access to or use of HMH Products, and in no event will provide less protection to HMH Products than its own protection to safeguard its own content, technology and intellectual property rights. Such reasonable efforts may include, without limitation, technology such as password protection, closing the right-click reproduction function, and other measures that appropriately protect the relevant HMH Products.
- (viii) In accordance with the rights and limitations in the Territory set forth above in Sub-sections (a)-(i), Licensee may provide products and services for profit pursuant to this Agreement only to students who live or are actually located in the Territory.
- (ix) Licensee shall comply with Licensor's instructions and requirements, provide curriculums in accordance with law, assume the sole responsibility for its profits or losses, conduct business activities, earn income and pay Royalties to Licensor in accordance with this Agreement. During the term of this Agreement, Licensor shall have the right to amend or develop rules and regulations with respect to "Rise Subject English" at any time. Such rules and regulations, upon effectiveness, shall be binding on Licensee from the date on which they are delivered to Licensee by mail or facsimile.

**LICENSE AGREEMENT WITH RESPECTED TO MANAGEMENT SYSTEM**

This license agreement (the “**Agreement**”) is entered into as of [Date] in Beijing, China by and between:

Party A: Rise (Tianjin) Education Information Consulting Co., Ltd. (“**Licensor**”)

Address: Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West Road, Airport Economic Zone, Tianjin, China

Party B: [•] (“**Licensee**”)

Address: [•]

**Whereas:**

1. **Licensor** is a company with adequate financial and other resources in the field of English teaching and training for children, capable of providing valuable and sophisticated educational services solutions to educational institutions and teachers;
2. **Licensee** engages in the field of English teaching and training for children. Licensee agrees to accept Licensor’s license as specified in this Agreement and utilize Licensor’s resources to grant licenses to relevant education and training institutions.

This Agreement is entered into by and between Licensor and Licensee (each a “**Party**” and collectively, the “**Parties**”) upon mutual consultation to promote the development of education and training and cultivate talents for the society.

**1. Scope of License**

Licensor hereby grants to Licensee a license (the “**License**”) to use the following management systems:

- (1) License of Business Management System

Licensor hereby grants to the Licensee a license to use the business management system developed by Licensor through commissioned contractors, which provides Licensee with various functions including but not limited to the entry, collection and analysis of data relating to new student enrollments, renewed student enrollments, course offerings and other business scenarios.

(2) License of Financial Management System

Licensor hereby grants to the Licensee a license to use the financial management system developed by Licensor through commissioned contractors, which provides Licensee with various financial management functions, including but not limited to (i) reconciliation between financial data and business data and (ii) management of its accounting books and records, accounts receivables and payables, fixed assets, financial statements, supply chains and master data.

(3) License of Human Resources Management System

Licensor hereby grants to the Licensee a license to use the human resources management system developed by Licensor through commissioned contractors, which provides Licensee with various human resources management functions, including but not limited to organization management, employee management, calculation of compensations, development of employee benefit plans, management of leave and absence records and shared services.

(4) License of Office Automation System

Licensor hereby grants to the Licensee a license to use the office automation system developed by Licensor through commissioned contractors, which provides Licensee with various administrative management functions, including but not limited to approval of contracts and payments and other routine matters at all levels.

**2. Non-exclusivity**

The License under this Agreement is non-exclusive. Licensor may use the License by itself or provide similar licenses to any other third party within the area where Licensee operates or other areas.

**3. Assignment**

Unless otherwise provided herein, Licensee shall not assign or transfer any rights or obligations hereunder to any third party without the prior written consent of Licensor. Licensor may assign or transfer its rights and obligations hereunder to any third party in connection with, among other things, equity restructuring or business restructuring, without the consent of Licensee.

**4. Royalties**

Licensee shall pay Licensor the royalties (“**Royalties**”) (inclusive of all applicable taxes) in accordance with Schedule 1 for the License granted by Licensor.

[To facilitate the operation of Licensee, in the event that Licensee incurs losses, Licensor may agree to waive the obligations of Licensee to pay Royalties to Licensor.]

## 5. Payment Methods

Licensee shall make the payment of Royalties through bank remittance or other payment methods to the following account designated by Licensor:

Account Name: Rise (Tianjin) Education Information Consulting Co., Ltd.

Account Bank: Bank of China (Tianjin Ronghe Square Sub-branch)

Account Number: 272672784101

## 6. Intellectual Property

All the legal rights in respect of the licensed systems under the License shall be owned by Licensor. Licensee does not obtain any intellectual property rights in respect of such licensed systems by entering into this Agreement. All the intellectual property rights created or derived from Licensee's use of the License, including but without limitation, copyrights, patents, patent applications, trademarks, trademark applications, software, know-how, technology data and commercial secrets, regardless of whether being developed or created by Licensor or Licensee, shall be exclusively and solely owned by Licensor.

## 7. Representations and Warranties

(1) Licensor hereby represents and warrants to Licensee as follows:

- (a) Licensor is a limited liability company duly organized and existing under the laws of China.
- (b) Licensor has legal rights to execute and perform this Agreement. The execution and performance of this Agreement does not contravene the articles of association or other constitutional documents of Licensor. Licensor has obtained all necessary and appropriate approvals and authorizations to execute and perform this Agreement.
- (c) The execution and performance of this Agreement by Licensor will not violate any provisions of laws and regulations, governmental approvals, authorizations, notifications, or any other regulatory documents binding or affecting Licensor, and will not violate any of its agreements with, or commitments to, any third party.
- (d) This Agreement constitutes legal, valid and enforceable obligations of Licensor.

(2) Licensee hereby represents and warrants to Licensor as follows:

- (a) Licensee is a [private non-enterprise entity]/ [limited liability company] duly organized and existing under the laws of China.
- (b) Licensee has legal rights to execute and perform this Agreement. The execution and performance of this Agreement does not contravene the articles of association or other constitutional documents of Licensee. Licensee has obtained all necessary and appropriate approvals and authorizations to execute and perform this Agreement.

- (c) The execution and performance of this Agreement by Licensee are in compliance with and does not violate any provisions of laws and regulations, governmental approvals, authorizations, notifications, or any other regulatory documents binding or affecting Licensee, and will not violate any of its agreements with, or commitments to, any third party.
- (d) This Agreement constitutes legal, valid and enforceable obligations of Licensee.

**8. Confidentiality**

The Parties covenant and confirm that any verbal communications, written documents or electronic information (including but not limited to software codes and any contents contained in the software) relating to this Agreement between the Parties shall be confidential information. Neither Party may disclose any confidential information of the other Party without prior written consent from the other Party, except that: (1) relevant information has been made public not as a result of any fault or disclosure by the information recipient; (2) such disclosure is required under applicable laws or regulations or rules of securities exchanges. Any employees of one Party disclosing any confidential information shall be deemed as the Party disclosing confidential information and such Party shall be liable therefor under this Agreement. This clause shall survive the termination of this Agreement.

**9. Events of Default**

Failure by a Party to perform its obligations under this Agreement or any non-compliance of its performance of obligations with this Agreement or any of its representations and warranties under this Agreement being materially untrue or inaccurate shall constitute an event of default. The defaulting Party shall indemnify the non-defaulting Party for all the direct and indirect losses arising from its default. Notwithstanding the foregoing, upon any delay by Licensee in its payment of any Royalties to Licensor, for each day of delay in such payment, Licensee must pay Licensor liquidated damages at 0.5 percent (0.5%) of the Royalties that are due and unpaid. In the event that such delay in payment is more than fifteen (15) days, Licensor may terminate this Agreement. Licensee shall be liable for indemnifying Licensor in full for the losses it incurred therefrom.

Either Party's failure to exercise the right to claim liquidated damages or indemnification for losses against the other Party shall not be deemed as a waiver of such right.

**10. Termination**

This Agreement shall be terminated upon the occurrence of any of the following:

- (1) The validity period of this Agreement expires and the Parties fail to reach an agreement on renewal;

- (2) The Parties mutually agree to terminate this Agreement; or
- (3) Licensor exercises the right to terminate this Agreement upon a default by Licensee.

If this Agreement is terminated by Licensor upon a default by Licensee, Licensor will not refund the prepaid Royalties to Licensee.

#### **11. Notice**

Any written notice sent by registered or express mail shall be deemed being delivered three (3) business days after the date on which the mail is dispatched (evidenced by the postmark) unless the address on the mailing slip is different from the address specified in this Agreement. Any written notice sent by facsimile shall be deemed being delivered when the receipt is confirmed.

In addition, Licensor may send any notice by email to the email address provided by Licensee in this Agreement, and the notice shall be deemed as being delivered when such email is successfully sent.

The address of each Party for notice purposes shall be as follows:

Licensor: Rise (Tianjin) Education Information Consulting Co., Ltd.

Mailing address: Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West Road, Airport Economic Zone, Tianjin, China

Attention: SUN Yiding

Licensee: [•]

Mailing address: [•]

Attention: [•]

#### **12. Dispute Resolution and Governing Law**

The Parties shall seek to resolve all the disputes arising from or in connection with this Agreement through friendly consultation. In the event that any dispute cannot be resolved through such consultation, such dispute shall be submitted to the Beijing Arbitration Commission (“**BAC**”) for arbitration pursuant to the then effective arbitration procedures and rules of BAC. The arbitral award shall be final and binding upon the Parties.

#### **13. Renewal**

This Agreement shall be effective as of the date set forth above in this Agreement. The term of this Agreement shall be five (5) years. This Agreement shall be renewed automatically for another five (5) years upon the expiration unless the Parties confirm, in writing, the termination of this Agreement.

**14. Miscellaneous**

- (1) [This Agreement shall supersede other license agreements with respect to management systems previously entered into by both Parties. In case of any conflicts in any terms and conditions or any dispute on the interpretation, application or implementation of this Agreement, this Agreement shall prevail. Any amendment to this Agreement shall be in writing and executed by both Parties hereto.]
- (2) This Agreement is executed in two (2) original copies and each Party shall hold one original copy. Both original copies shall have the same legal effect.
- (3) This Agreement shall become effective upon being affixed with both Parties' official seals.

*[The remainder of this page is left blank]*

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date first above written.

**Rise (Tianjin) Education Information Consulting Co., Ltd.**

(Corporate Seal)

Date:

[•]

(Seal)

Date:

**SCHEDULE 1**

**Royalties**

During the term of this Agreement, Licensee shall pay to Licensor the Royalties on a quarterly basis. The amount of the Royalties shall be computed at a percentage (as agreed upon between both Parties) of Licensee's revenues and confirmed by a letter of confirmation substantially in the form attached hereto.

Royalties shall be paid after each quarter. Licensee shall pay the Royalties for the preceding quarter in accordance with a written payment instruction of Licensor during each quarter.

**Annex 1 – Form of the Letter of Confirmation on the Amount of Royalties****Letter of Confirmation on the Amount of Royalties**

Reference is made to the license agreement (the “**Agreement**”), dated as of [Date], by and between Rise (Tianjin) Education Information Consulting Co., Ltd. (“**Licensor**”) and [•] (“**Licensee**”). Pursuant to Section 4 and Schedule 1 of the Agreement, Licensor and Licensee agree that the amount of the Royalties for the [•] quarter of 20[•] shall be set at [•]% of the revenues booked by Licensee during the quarter, amounting to RMB [•] ([•] [in letters]). The above-referenced Royalties shall be paid by Licensee to the account designated by Licensor not later than [Date] in accordance with a written payment instruction of Licensor.

**Rise (Tianjin) Education Information Consulting Co., Ltd.**  
(Corporate Seal)

[•]  
(Seal)

[Date]

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**SERVICE AGREEMENT**

This Service Agreement (this “**Agreement**”) is entered into as of [Date] in Beijing, China, by and between:

Party A: Rise (Tianjin) Education Information Consulting Co., Ltd. (“**Service Provider**”)

Address: Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No. 8 Huanhe West Road, Airport Economic Zone, Tianjin, China

Party B: [•] (“**Service Recipient**”)

Address: [•]

**Whereas:**

1. Service Provider is a company with adequate financial and other resources in the field of English teaching and training for children, capable of providing valuable and sophisticated educational services solutions to educational institutions and teachers;
2. Service Recipient engages in the field of English teaching and training for children. Service Recipient agrees to accept Service Provider’s services as specified in this Agreement and utilize Service Provider’s resources to provide services to relevant education and training institutions.

This Agreement is entered into by and between Service Provider and Service Recipient (each a “**Party**” and collectively, the “**Parties**”) upon mutual consultation to promote the development of education and training and cultivate talents for the society.

**1. Scope of Services**

Service Provider shall provide the following operation support services (the “**Services**”) to Service Recipient:

**(1) Academic Support Services**

Service Provider, having a dedicated team for research and development in courses and teaching methods, will provide Service Recipient with customized academic supports, including those in respect of teaching skills, operation guidance for teachers, codes of conduct and staff training, to meet the needs of Service Recipient for academic support in its operations.

## (2) Enrollment Support Services

Service Provider, having a dedicated student enrollment support team, will provide Service Recipient with customized student enrollment support services, including recommending Service Recipient's courses to potential users, through the internet, WeChat, offline activities and other methods, to meet the needs of Service Recipient for student enrollment support in its operations and promote student enrollments with Service Recipient.

## (3) [Human Resources Support Services

Service Provider, having a dedicated human resources support team, will provide Service Recipient with customized human resources support services, including but not limited to those in connection with staff recruitment, onboarding, probation, job transfers, departure, social security and provident funds, to meet the needs of Service Recipient for human resources support in its operations.]

## (4) [Financial Management Support Services

Service Provider, having a dedicated financial management support team, will provide Service Recipient with customized financial management support services, including but not limited to consulting services relating to accounting management, cash flow management, financial analysis and financial budgeting, to meet the needs of Service Recipient for financial management support in its operations.]

## (5) [Legal Support Services

Service Provider, having a dedicated legal support team, will provide Service Recipient with customized legal support services, including but not limited to those relating to the management of legal and regulatory matters, contract review, dispute resolution, litigation and arbitration proceedings, and acquisition and merger transactions, to meet the needs of Service Recipient for legal support in its operations.]

## (6) Customer Support Services

Service Provider, having a dedicated team operating a national customer service center, will provide Service Recipient with customized customer support services, including but not limited to answering customers' incoming calls, following up on customers' telephone inquiries, arranging return visits, inviting customers to trial courses, assisting on handling customers' complaints and conducting *ad hoc* customer satisfaction surveys, to meet the needs of Service Recipient for customer support services in its operations.

## (7) [Internet Technology Support Services

Service Provider, having a dedicated internet technology support team, will provide Service Recipient with customized internet technology support services, including but not limited to network engineering services and cybersecurity support services, to meet the needs of Service Recipient for internet technology support in its operations.]

## (8) [Administrative Support Services

Service Provider, having a dedicated administrative support team, will provide Service Recipient with customized administrative support services, including but not limited to centralized procurement services and inventory management services, to meet the needs of Service Recipient for administrative support in its operations.]

**2. Non-exclusivity**

The provision of the Services under this Agreement is non-exclusive. Service Provider may use the Services by itself or provide similar services to any other third party within the area where Service Recipient operates or other areas.

**3. Assignment**

Unless otherwise provided herein, Service Recipient shall not assign or transfer any rights or obligations hereunder to any third party without the prior written consent of Service Provider. Service Provider may assign or transfer its rights and obligations hereunder to any third party in connection with, among other things, equity restructuring or business restructuring, without the consent of Service Recipient.

**4. Service Fee**

Service Recipient shall pay Service Provider the [service fees]/ [commissions and service fees] ([collectively,] “**Service Fee**”) (inclusive of all applicable taxes) in accordance with Schedule 1 for the Services provided by Service Provider.

[To facilitate the operation of Service Recipient, in the event that Service Recipient incurs losses, Service Provider may agree to waive the obligations of Service Recipient to pay Service Fee to Service Provider.]

**5. Payment Methods**

Service Recipient shall make the payment of Service Fee through bank remittance or other payment methods to the following account designated by Service Provider:

Account Name: Rise (Tianjin) Education Information Consulting Co., Ltd.

Account Bank: Bank of China (Tianjin Ronghe Square Sub-branch)

Account Number: 272672784101

**6. Intellectual Property**

All the legal rights in respect of the Services shall be owned by Service Provider. Service Recipient does not obtain any intellectual property rights in respect of the Services by entering into this Agreement. All the intellectual property rights created or derived from the provision of the Services, including but without limitation, copyrights, patents, patent applications, trademarks, trademark applications, software, know-how, technology data and commercial secrets, regardless of whether being developed or created by Service Provider or Service Recipient, shall be exclusively and solely owned by Service Provider.

## 7. Representations and Warranties

- (1) Service Provider hereby represents and warrants to Service Recipient as follows:
  - (a) Service Provider is a limited liability company duly organized and existing under the laws of China.
  - (b) Service Provider has legal rights to execute and perform this Agreement. The execution and performance of this Agreement does not contravene the articles of association or other constitutional documents of Service Provider. Service Provider has obtained all necessary and appropriate approvals and authorizations to execute and perform this Agreement.
  - (c) The execution and performance of this Agreement by Service Provider will not violate any provisions of laws and regulations, governmental approvals, authorizations, notifications, or any other regulatory documents binding or affecting Service Provider, and will not violate any of its agreements with, or commitments to, any third party.
  - (d) This Agreement constitutes legal, valid and enforceable obligations of Service Provider.
- (2) Service Recipient hereby represents and warrants to Service Provider as follows:
  - (a) Service Recipient is a [private non-enterprise entity]/ [limited liability company] duly organized and existing under the laws of China.
  - (b) Service Recipient has legal rights to execute and perform this Agreement. The execution and performance of this Agreement does not contravene the articles of association or other constitutional documents of Service Recipient. Service Recipient has obtained all necessary and appropriate approvals and authorizations to execute and perform this Agreement.
  - (c) The execution and performance of this Agreement by Service Recipient will not violate any provisions of laws and regulations, governmental approvals, authorizations, notifications, or any other regulatory documents binding or affecting Service Recipient, and will not violate any of its agreements with, or commitments to, any third party.
  - (d) This Agreement constitutes legal, valid and enforceable obligations of Service Recipient.

## 8. Confidentiality

The Parties covenant and confirm that any verbal communications, written documents or electronic information (including but not limited to software codes and any contents contained in the software) relating to this Agreement between the Parties shall be confidential information. Neither Party may disclose any confidential information of the other Party without prior written consent from the other Party, except that: (1) relevant information has been made public not as a result of any fault or disclosure by the information recipient; (2) such disclosure is required under applicable laws or regulations or rules of securities exchanges. Any employees of one Party disclosing any confidential information shall be deemed as the Party disclosing confidential information and such Party shall be liable therefor under this Agreement. This clause shall survive the termination of this Agreement.

**9. Events of Default**

Failure by a Party to perform its obligations under this Agreement or any non-compliance of its performance of obligations with this Agreement or any of its representations and warranties under this Agreement being materially untrue or inaccurate shall constitute an event of default. The defaulting Party shall indemnify the non-defaulting Party for all the direct and indirect losses arising from its default.

Notwithstanding the foregoing, upon any delay by Service Recipient in its payment of any Service Fee to Service Provider, for each day of delay in such payment, Service Recipient must pay Service Provider liquidated damages at 0.5 percent (0.5%) of the Service Fee that are due and unpaid. In the event that such delay in payment is more than fifteen (15) days, Service Provider may terminate this Agreement. Service Recipient shall be liable for indemnifying Service Provider in full for the losses it incurred therefrom.

Either Party's failure to exercise the right to claim liquidated damages or indemnification for losses against the other Party shall not be deemed as a waiver of such right.

**10. Termination**

This Agreement shall be terminated upon the occurrence of any of the following:

- (1) The validity period of this Agreement expires and the Parties fail to reach an agreement on renewal;
- (2) The Parties mutually agree to terminate this Agreement; or
- (3) Service Provider exercises the right to terminate this Agreement upon a default by Service Recipient.

If this Agreement is terminated by Service Provider upon a default by Service Recipient, Service Provider will not refund the prepaid Service Fee to Service Recipient.

**11. Notice**

Any written notice sent by registered or express mail shall be deemed being delivered three (3) business days after the date on which the mail is dispatched (evidenced by the postmark) unless the address on the mailing slip is different from the address specified in this Agreement. Any written notice sent by facsimile shall be deemed being delivered when the receipt is confirmed.

In addition, Service Provider may send any notice by email to the email address provided by Service Recipient in this Agreement, and the notice shall be deemed as being delivered when such email is successfully sent.

The address of each Party for notice purposes shall be as follows:

Service Provider: Rise (Tianjin) Education Information Consulting Co., Ltd.

Mailing address: Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West Road, Airport Economic Zone, Tianjin, China

Attention: SUN Yiding

Service Provider: [•]

Mailing address: [•]

Attention: [•]

## 12. Dispute Resolution and Governing Law

The Parties shall seek to resolve all the disputes arising from or in connection with this Agreement through friendly consultation. In the event that any dispute cannot be resolved through such consultation, such dispute shall be submitted to the Beijing Arbitration Commission (“BAC”) for arbitration pursuant to the then effective arbitration procedures and rules of BAC. The arbitral award shall be final and binding upon the Parties.

## 13. Renewal

This Agreement shall be effective as of the date set forth above in this Agreement. The term of this Agreement shall be five (5) years. This Agreement shall be renewed automatically for another five (5) years upon the expiration unless the Parties confirm, in writing, the termination of this Agreement.

## 14. Miscellaneous

- (1) [This Agreement shall supersede other service agreements previously entered into by both Parties. In case of any conflicts in any terms and conditions or any dispute on the interpretation, application or implementation of this Agreement, this Agreement shall prevail. Any amendment to this Agreement shall be in writing and executed by both Parties hereto.]
- (2) This Agreement is executed in two (2) original copies and each Party shall hold one original copy. Both original copies shall have the same legal effect.
- (3) This Agreement shall become effective upon being affixed with both Parties’ official seals.

*[The remainder of this page is left blank]*

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed

**Rise (Tianjin) Education Information Consulting Co.,  
Ltd.**

(Corporate Seal)

Date:

[•]

(Seal)

Date:

**SCHEDULE 1**

**Service Fees**

During the term of this Agreement, Service Recipient shall pay to Service Provider the Service Fee on a quarterly basis. The amount of the Service Fee shall be [determined on the basis of the actual costs incurred by Service Provider in connection with its provision of the services, plus a mark-up at a percentage as agreed upon between both Parties, to be allocated to Service Recipient and other service recipients in proportion to their respective revenues] / [computed at a percentage (as agreed upon between both Parties) of Service Recipient's revenues] and confirmed by a letter of confirmation substantially in the form attached hereto.

Service Fee shall be paid after each quarter. Service Recipient shall pay the Service Fee for the preceding quarter in accordance with a written payment instruction of Service Provider during each quarter.

**Annex 1 – Form of the Letter of Confirmation on the Amount of Service Fee****Letter of Confirmation on the Amount of Service Fee**

Reference is made to the Service Agreement (the “**Agreement**”), dated as of [Date], by and between Rise (Tianjin) Education Information Consulting Co., Ltd. (“**Service Provider**”) and [•] (“**Service Recipient**”). Pursuant to Section 4 and Schedule 1 of the Agreement, Service Provider and Service Recipient agree that the amount of the Service Fee for the [•] quarter of 20[•] shall be [RMB [•] ([•][in letters]) in total]/[set at [•]% of the revenues booked by Service Recipient during the quarter, amounting to RMB [•] ([•][in letters])]. The above-referenced Service Fee shall be paid by Service Recipient to the account designated by Service Provider not later than [Date] in accordance with a written payment instruction of Service Provider.

**Rise (Tianjin) Education Information** [•]  
**Consulting Co., Ltd.**  
(Corporate Seal) (Seal)

[Date]

## FRAMEWORK AGREEMENT ON PURCHASE OF TEACHING MATERIALS

**Party A: Rise (Tianjin) Education Information Consulting Co., Ltd. (“Supplier”)**

Address: Room C209, C210, C213, C214, C217 and C218, 2/F, Building 1, No.8 Huanhe West Road, Airport Economic Zone, Tianjin, China  
Legal Representative: SUN Yiding

**Party B: [•] (“Customer”)**

Address: [•]  
Legal Representative: [•]

This Framework Agreement on Purchase of Teaching Materials (this “**Agreement**”) is entered into as of [Date] by and between Supplier and Customer (each a “**Party**” and collectively, the “**Parties**”), through friendly consultations, for the procurement of teaching materials for the Rise Subject English Education courses (“**Teaching Materials**”). The Parties agree as follows:

**1. Procurement of Teaching Materials**

The Parties hereby enter into this Agreement, and Supplier hereby agrees to provide Teaching Materials to Customer’s procuring entities.

Supplier shall provide Customer with Teaching Materials, and Customer agrees to pay for Teaching Materials at the prices agreed in the purchase order (the “**purchase price**”). Supplier may adjust the purchase price for Teaching Materials based on the changes in, among other things, the market environment, conditions and policies. In the event of any adjustment of purchase price, Supplier shall timely notify Customer thereof.

The purchase price stipulated in the Appendices to this Agreement is inclusive of applicable taxes. Supplier shall check the inventory and arrange the delivery in the order of payments before the end of the succeeding month upon its receipt of the payment from Customer.

Supplier shall handle shipment and delivery for Customer and bear the freight charges. Upon delivery of Teaching Materials to the shipping or delivery company, Teaching Materials shall be deemed having been delivered to Customer.

## 2. Payment for Teaching Materials

Customer shall make the payments for Teaching Materials to the following account designated by Supplier.

Account Name: Rise (Tianjin) Education Information Consulting Co., Ltd.

Account Bank: China CITIC Bank (Beijing Shijingshan Sub-branch)

Account Number: 7117410182600004703

Upon payment, Supplier shall issue invoices in respect of the purchase price for the respective Teaching Materials to Customer.

## 3. Defects

In case of any shortage or damage of Teaching Materials, Customer shall communicate with the transportation and delivery personnel in person upon its receipt of such Teaching Materials and notify Supplier in writing of the quantity of Teaching Materials with defects and the related circumstances within 15 business days upon its receipt of such Teaching Materials. Supplier shall not be liable for any claims on defects in any Teaching Materials raised by Customer after the above-referenced timeframe, and all the losses arising from such defects shall be borne by Customer.

## 4. Anti-corruption

Each Party shall comply with, and shall cause its agents, directors, partners, employees, officers, and other persons who are affiliated with such Party and provide services for the performance of this Agreement (including but not limited to subcontractors) (collectively, "**Interested Persons**") to comply with, the following undertakings: a) not to engage, in any manner, in any activities that may involve bribery, corruption, extortion, embezzlement or any other violation of laws; b) to comply with all applicable laws, regulations, administrative rules and regulatory documents relating to anti-bribery and anti-corruption (collectively, "**Anti-bribery Laws**"). Each Party undertakes to implement appropriate policies and procedures continuously and adequately throughout the term of this Agreement to ensure its compliance with Anti-bribery Laws.

Each Party shall hold the other Party and the affiliates, directors, partners, officers, employees, contractors, subcontractors and agents of the other Party harmless from any and all expenses, damages, liabilities, losses or fees arising directly or indirectly out of any violation of Anti-bribery Laws by such Party or its Interested Persons. In the event of any violation of Anti-bribery Laws, the Party in violation shall be liable for full indemnification of all the losses incurred by the other Party.

If either Party believes in good faith that the other Party or any Interested Person of the other Party has violated any provision in this clause or any provisions of Anti-bribery Laws, such Party shall have the right to terminate this Agreement immediately.

## **5. Events of Default**

Failure by a Party to perform its obligations under this Agreement or any non-compliance of its performance of obligations with this Agreement shall constitute an event of default. The defaulting Party shall indemnify the non-defaulting Party for all the direct and indirect losses arising from its default. Either Party's failure to exercise the right to claim liquidated damages or indemnification for losses against the other Party shall not be deemed as a waiver of such right.

## **6. Dispute Resolution**

The Parties shall seek to resolve all the disputes arising from or in connection with this Agreement through friendly consultation. In the event that any dispute cannot be resolved through such consultation, such dispute shall be submitted to China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration pursuant to the then effective arbitration procedures and rules of CIETAC. The seat of the arbitral tribunal shall be in Beijing, and the arbitration hearings shall be conducted in Chinese. The arbitral award shall be final and binding upon the Parties. If CIETAC declines to accept the arbitration request or deems the dispute so submitted out of the scope for CIETAC arbitration, such dispute shall be submitted to the competent court with jurisdiction over the dispute.

## **7. Miscellaneous**

This Agreement is executed in two (2) original copies and each Party shall hold one original copy. Both original copies shall have the same legal effect. This Agreement shall become effective upon being affixed with both Parties' official seals.

*[The remainder of this page is left blank]*

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed

**Rise (Tianjin) Education Information Consulting Co., Ltd.**

(Corporate Seal)

Date:

[•]

(Seal)

Date:



| <u>Affiliated Schools</u>   | <u>Place of Incorporation</u> |
|---|-------------------------------|
| Beijing Haidian District Step Ahead Training School<br>(北京海淀区步步领先培训学校)                                      | PRC                           |
| Beijing Shijingshan District Step Ahead Training School<br>(北京石景山区步步领先培训学校)                                 | PRC                           |
| Beijing Changping District Step Ahead Training School<br>(北京昌平区步步领先培训学校)                                    | PRC                           |
| Beijing Chaoyang District Step Ahead Training School<br>(北京朝阳区步步领先培训学校)                                     | PRC                           |
| Beijing Xicheng District RISE Immersion Subject English Training School<br>(北京西城区RISE浸入式英语培训学校)             | PRC                           |
| Beijing Dongcheng District RISE Immersion Subject English Training School<br>(北京东城区RISE浸入式英语培训学校)           | PRC                           |
| Beijing Tongzhou District RISE Immersion Subject English Training School<br>(北京通州区RISE浸入式英语培训学校)            | PRC                           |
| Beijing Daxing District RISE Immersion Subject English Training School<br>(北京大兴区RISE浸入式英语培训学校)              | PRC                           |
| Beijing Fengtai District RISE Immersion Subject English Training School<br>(北京丰台区RISE浸入式英语培训学校)             | PRC                           |
| Shanghai Huangpu District Step Ahead Training School<br>(上海黄浦区步步领先培训学校)                                     | PRC                           |
| Guangzhou Yuexiu District RISE Immersion Subject English Training School<br>(广州越秀区RISE浸入式英语培训学校)            | PRC                           |
| Guangzhou Haizhu District RISE Immersion Subject English Training School—Chigang<br>(广州海珠区RISE浸入式英语培训学校—赤岗) | PRC                           |
| Guangzhou Tianhe District RISE Immersion Subject English Training School<br>(广州天河区RISE浸入式英语培训学校)            | PRC                           |
| Shenzhen Futian District Rise Training Center<br>(深圳福田区崛起培训中心)  | PRC                           |
| Shenzhen Nanshan District Rise Training Center<br>(深圳南山区崛起培训中心)   | PRC                           |
| Shenzhen Luohu District Rise Education Training Center<br>(深圳罗湖区崛起教育培训中心)                                   | PRC                           |
| Shenzhen Longhua District Minzhi Rise Training Center<br>(深圳龙华区民智崛起培训中心)                                    | PRC                           |
| Shijiazhuang Xinhua District Oriental Red American Education Training School<br>(石家庄新华区东方红美国教育培训学校)         | PRC                           |
| Shijiazhuang Yuhua District Ai Ruisi Education Training School<br>(石家庄裕华区艾瑞思教育培训学校)                         | PRC                           |
| Shijiazhuang Yuhua District Oriental Red Education Training School<br>(石家庄裕华区东方红教育培训学校)                     | PRC                           |

**Certification by the Chief Executive Officer  
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934,  
as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Lihong Wang, certify that:

1. I have reviewed this annual report on Form 20-F of RISE Education Cayman Ltd (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: April 17, 2020

By: /s/ Lihong Wang  
Name: Lihong Wang  
Title: Chief Executive Officer

**Certification by the Chief Financial Officer  
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934,  
as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jiandong Lu, certify that:

1. I have reviewed this annual report on Form 20-F of RISE Education Cayman Ltd (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and



**Certification by the Chief Executive Officer**  
**Pursuant to 18 U.S.C. Section 1350, as adopted**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of RISE Education Cayman Ltd (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lihong Wang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 17, 2020

By: /s/ Lihong Wang  
Name: Lihong Wang  
Title: Chief Executive Officer

**Certification by the Chief Financial Officer**  
**Pursuant to 18 U.S.C. Section 1350, as adopted**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of RISE Education Cayman Ltd (the "Company") on Form 20-F for the year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jiandong Lu, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 17, 2020

By: /s/ Jiandong Lu  
Name: Jiandong Lu  
Title: Chief Financial Officer

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-222775) pertaining to the 2016 Equity Incentive Plan and 2017 Share Incentive Plan of RISE Education Cayman Ltd of our report dated April 17, 2020, with respect to the consolidated financial statements of RISE Education Cayman Ltd included in this Annual Report (Form 20-F) for the year ended December 31, 2019.

/s/ Ernst & Young Hua Ming LLP

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Beijing, the People's Republic of China

April 17, 2020

[Letterhead of Maples and Calder (Hong Kong) LLP]

RISE Education Cayman Ltd  
Room 101, Jia He Guo Xin Mansion  
No. 15 Baiqiao Street  
Guangqumennei  
Dongcheng District, Beijing 100062  
People's Republic of China

April 17, 2020

Dear Sir and/or Madam

**RISE Education Cayman Ltd**

We have acted as legal advisers as to the laws of the Cayman Islands to RISE Education Cayman Ltd, an exempted limited liability company incorporated in the Cayman Islands (the "**Company**"), in connection with the filing by the Company with the United States Securities and Exchange Commission (the "**SEC**") of an annual report on Form 20-F for the year ended 31 December 2019 (the "**Annual Report**").

We hereby consent to the reference to our firm under the heading "Item 10. Additional Information—E. Taxation—Cayman Islands Tax Considerations" in the Annual Report, and we further consent to the incorporation by reference of the summary of our opinions under these headings into the Company's registration statement on Form S-8 (File No. 333-222775) that was filed on 30 January 2018, pertaining to the Company's 2016 Equity Incentive Plan filed as Exhibit 10.1 to the Company's registration statement on Form F-1, as amended (File No. 333-220587) filed with the SEC and 2017 Share Incentive Plan filed as Exhibit 10.2 to the Company's registration statement on Form F-1, as amended (File No. 333-220587) filed with the SEC.

We consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report. In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully

/s/ Maples and Calder (Hong Kong) LLP

Maples and Calder (Hong Kong) LLP

[Letterhead of Fangda Partners]

April 17, 2020

RISE Education Cayman Ltd

Room 101, Jia He Guo Xin Mansion  
No.15 Baiqiao Street, Guangqumennei,  
Dongcheng District, Beijing 100062,  
People's Republic of China

Dear Sir/Madam:

We hereby consent to the reference of our name under the heading “Item 3. Key Information—D. Risk Factors—Risks Related to Our Corporate Structure” and “Item 4. Information of the Company—C. Organizational Structure” in RISE Education Cayman Ltd’s Annual Report on Form 20-F for the year ended December 31, 2019 (the “**Annual Report**”), which will be filed with the Securities and Exchange Commission (the “**SEC**”) in the month of April 2020. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Fangda Partners

\_\_\_\_\_  
Fangda Partners