

KAIWEN EDUCATION: PUBLIC RELATIONS CLAIMS VERSUS REALITY

Public statements and press releases by Rider University and its administration as well as statements released by Kaiwen Education and its newly announced, wholly controlled subsidiary, the Westminster Choir College Acquisition Corporation (WCCAC) present Kaiwen Education as a qualified, financially sound “partner” for Westminster Choir College. The table below recounts some of these “claims,” which contrast starkly with the “reality” found in public sources such as Bloomberg News, Morningstar, Reuters, Barron’s, and other reputable sources as well as from Kaiwen’s own announcements.

Claim	Reality
<p>Kaiwen Education is a new company with no connection to its unsuccessful predecessor company, the Jiangsu Zhongtai Bridge Steel Structure Co Ltd. (March 4th presentation to the Westminster community by representatives of Kaiwen Education.)</p>	<p>Jiangsu Zhongtai Bridge Steel Structure Co Ltd was renamed Kaiwen Education in January 2018. Kaiwen Board Chairman, Xu Guangyu, was also Board Chairman of the steel structure company. Four of the ten current members of Kaiwen Education’s Board of Directors were also Board members at Jiangsu Zhongtai.</p>
<p>Kaiwen Education has achieved success in running its two K-12 schools in China (its web site and in press releases).</p>	<p>Having operated only one and two years, respectively, <i>neither of Kaiwen’s schools has graduated a single student.</i></p>
<p>Kaiwen Education has developed “complete teaching platforms” (its web site and in press releases).</p>	<p>Kaiwen faculty report there is no established and proven curriculum at either school and no regular observation of instruction by school administrators occurs, which is essential in unifying, integrating, and establishing a curriculum.</p>
<p>Kaiwen’s schools offer an educational program “comparable with other world-class international schools,” and are now ready to expand its brand abroad.</p>	<p>Kaiwen Education’s schools are not accredited. They grant the equivalent of a certificate of completion rather than a Chinese high school diploma. Thus, <i>none of its students are eligible to attend Chinese universities.</i></p>

Claim	Reality
<p>Kaiwen claims on its web site its Beijing-Haidian school is an International Baccalaureate (IB) school.</p>	<p>There is no evidence that either of its schools have met the requirements or received the recognition required to make this claim.</p>
<p>The quality of Kaiwen’s educational offerings is verified by its affiliation with the prestigious High School attached to Tsinghua University.</p>	<p>This relationship no longer exists.</p>
<p>According to Westminster Dean Marshall Onofrio, “The success of Kaiwen Education has been largely due to its strategic vision, business acumen, operational dynamics, and (sic) adaptation to a constantly changing marketplace, capital management, financial discipline, management, and execution.”</p>	<p>Kaiwen is in a precarious financial condition (AAUP White Paper). <i>In only one of the last nine quarters has it reported a profit</i>, and that was not from operations but from a non-recurring event. It has a large debt burden and is dependent on outside funds to continue to operate. Kaiwen’s especially poor performance in each of the first two quarters of this year raises significant questions about company management, the soundness of its business model, and company viability. Reported quarterly net losses on company revenue were an incredible 74.3% and 57.8%, respectively. Revenue declined by 65.35% compared to the first six month of 2017 and net loss increased by 104.2%. The respected financial site Morningstar has assessed the financial risks associated with Kaiwen Education from “High” to “Very High.”</p> <p>https://www.morningstar.com/stocks/xshe/002659/quote.html (subscription required)</p>

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<p>Kaiwen will respect the traditions of American Higher Education for due process, fair dealing, and shared governance. (March 4th presentation by Kaiwen representatives to the Westminster community.)</p>	<p>Kaiwen faculty are employed-at-will, have <u>annual</u> contracts, and can never earn tenure. Kaiwen Beijing-Haidian faculty learned in January 2018 their signed contracts for 2018–19, which promised a 5% pay increase, would be replaced by another that provided only a 3% pay increase. School administrators have made changes in individual teaching and extra-curricular assignments as well as workload without prior consultation.</p>
<p>Kaiwen will provide Westminster faculty with benefits comparable to those they already have.</p>	<p>“Full medical coverage” <u>promised</u> by Kaiwen’s Beijing-Chaoyang school was not provided, and <i>health coverage for teachers and their families cost a full third of salary.</i></p>
<p>(Westminster’s) rising operational costs coupled with declining enrollment have made it difficult to achieve a balanced budget. (WCCAC August 8 announcement)</p>	<p>Every college’s costs rise annually and Westminster’s enrollments were healthy until President Dell’Omo announced he planned to close or sell Westminster. In each of the two years prior to these announcements fund raising produced surpluses for the College.</p>
<p>Jiangsu Zhongtai Bridge Steel Structure Co. (Zhongtai Bridge), a company in the steel bridge structure fabrication business, was owned by different shareholders and run by a different management team at a different domicile location (Jiangsu Province), until Kaiwen’s major shareholders became the controlling shareholders of Zhongtai Bridge in July 2016. (WCCAC August 8 announcement)</p>	<p>On December 12, 2017, the Jiangsu Zhongtai Bridge Steel Structure Co., Ltd. revised its company charter, which included the following statements. “Article 12 The company's business objectives: (1) To create a complete industrial chain in the field of education internationalization,.. (2) <i>Continue the company's traditional business projects and continue to develop (the) steel structure engineering business.</i>”</p>

Claim	Reality
<p>Since Kaiwen’s shareholders took over the then Zhongtai Bridge in July 2016, the stock has appreciated 50% from RMB 9.33 to its recent value of RMB 13.99 within 2 years - a significant long-term value creation. (WCCAC August 8 announcement)</p>	<p>According to Reuters the share price of the then Zhongtai Bridge on July 1, 2016, was RMB 18.06 and it closed on August 8, 2018, at RMB 13.03 — a 28% loss of share value. By American standards Kaiwen’s stock was and still is a “penny stock.” with a current per-share value of US \$2.04. These stocks are purchased at great risk.</p>
<p>Even with the most conservative calculation, Kaiwen had a debt to equity ratio of .53 in 2016, and .42 in 2017, which compares very favorably with most firms. Kaiwen had an extremely low long-term debt to equity ratio of .062 in 2016. Kaiwen had a long-term debt to assets ratio of .34 in 2016, which aligns with (sic) industry norm. (WCCAC August 8 announcement)</p>	<p>What are the sources for this information? When the AAUP could not locate these “publicly available” sources, it asked Westminster Dean Marshall Onofrio for them. Dean Onofrio declined the request. Respected U.S. financial sources like the Wall Street Journal, with analysts in opaque financial markets, report that for 2017 Kaiwen had a debt to equity ratio of 16.10, a debt to capital ratio of 13.87, and a debt to assets ration of 11.28. At the end of 2017 Kaiwen's current liabilities or obligations were five times larger than its cash and cash equivalents on hand to cover them. These metrics provide grounds for significant concern, as the AAUP argued in its White Paper.</p>
<p>Among all seven security brokerage firms who currently track Kaiwen stock, one of them has a “strong buy” rating on Kaiwen stock, and the other six, a “buy” rating – a clear indication of strong investor confidence and interest in Kaiwen stock. (WCCAC August 8 announcement)</p>	<p>It is impossible to evaluate the quality of this claim without knowing more about the brokerage firm ownership, compliance history, and stock holdings. However, despite these “buy” suggestions, for the past twelve months the per-share price has traded in a very narrow range, of about 13 to 14 Yuan, suggesting that investors do not have high expectations for the company and its profitability.</p>

Claim	Reality
	https://quotes.wsj.com/CN/XSHE/002659/financials — On the chart click YTD.
<p>Firms at their launch and growth stages typically experience net cash outflows. This was the case for Kaiwen in the past two years. It took significant investments for Kaiwen and its shareholders to construct, build, and launch two magnificent international schools with total enrollment capacity of 4,700 students at attractive locations in Beijing. (WCCAC August 8 announcement)</p>	<p>Though the “capacity” of its schools may be 4700, the actual enrollment is closer to 500 according to Dean Onofrio. It is hard to see how they will recoup the investment in two campuses when enrollment is only about 10% of capacity.</p>
<p>In Kaiwen’s planning, it typically takes 3-4 academic years for a brand-new campus to reach its maturity and produce significant net cash inflows. (WCCAC August 8 announcement)</p>	<p>Because Kaiwen has never run any school prior to two years ago and has never graduated a single student, on what basis can the company make this judgment?</p>
<p>The RMB 1.7 billion Yuan fundraising and inflow by Kaiwen in 2016 was a transparent and legal transaction with the approval by the China Securities Regulatory Commission (CSRC) and full disclosure to the public. (WCCAC August 8 announcement)</p>	<p>From an article in Forbes about investing in China. “In short, no one knows what Chinese companies are really worth.” "This account issue is not a new problem," says Paul Dietrich, Chairman of Foxhall Capital Management. "I've been investing in China since the '80s and we'd see five different sets of financials. You have to do your due diligence. If you think you can rely on audits, you're fooling yourself."</p>
<p>Kaiwen has recently announced its plan to issue additional stock shares to raise approximately RMB 1,000 million (approximately US\$153 million). In keeping with a historical pattern of support from its shareholders, Kaiwen has received an enthusiastic commitment from</p>	<p>Kaiwen has already burned through a sea of capital and is totally reliant on its shareholders to keep it afloat. How long can Westminster count on their continued support? The Purchase and Sale Agreement between Rider and Kaiwen provides some answers:</p>

Claim	Reality
its principle (sic) shareholder to participate in this offering. (WCCAC August 8 announcement)	Kaiwen guarantees the College and its degree-granting programs for only a five-year window and guarantees tenured faculty employment for just two years. The clock may start this fall, when Rider manages Westminster on Kaiwen's behalf.

Past is often prologue, and the character and inclinations of Kaiwen Education revealed by this review casts great doubt on Kaiwen's [expressed](#) willingness and ability "to come together with Westminster's entire community to learn, and leverage all available resources, expertise and experience." Kaiwen Education's incompatibility with Westminster Choir College's programs, its lack of long term experience in education, its complete lack of experience in Higher Education, the great differences between its self-descriptions and reality, its poor financial performance and prospects, and its for-profit motivation, indicate that Kaiwen Education is fundamentally unfit to take on the responsibility of safe-guarding one of America's cultural treasures.