
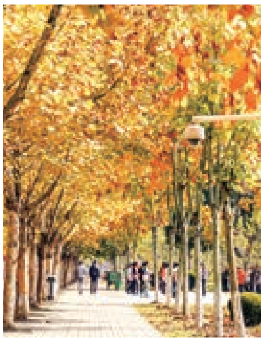

CHINA XINHUA EDUCATION GROUP LIMITED
中國新華教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）

Stock Code 股份代號 : 02779

ANNUAL REPORT 2017 年報

CONTENTS

CORPORATION INFORMATION

BOARD OF DIRECTORS

Non-executive Director

Mr. Wu Junbao (吳俊保) *(Chairman)*

Executive Directors

Mr. Lu Zhen (陸真)
Mr. Wang Yongkai (王永凱)
Ms. Wang Li (王麗)

Independent Non-executive Directors

Ms. Zhang Kejun (張可君)
Mr. Yang Zhanjun
Mr. Chau Kwok Keung (鄒國強)

AUDIT COMMITTEE

Mr. Chau Kwok Keung (鄒國強) *(Chairman)*
Mr. Wu Junbao (吳俊保)
Ms. Zhang Kejun (張可君)

REMUNERATION COMMITTEE

Ms. Zhang Kejun (張可君) *(Chairman)*
Mr. Wu Junbao (吳俊保)
Mr. Yang Zhanjun

NOMINATION COMMITTEE

Mr. Wu Junbao (吳俊保) *(Chairman)*
Ms. Zhang Kejun (張可君)
Mr. Yang Zhanjun

COMPANY SECRETARY

Ms. Ko Nga Kit (高雅潔)

AUTHORISED REPRESENTATIVES

Mr. Wang Yongkai (王永凱)
Ms. Ko Nga Kit (高雅潔)

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

REGISTERED OFFICE

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

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Heifei City, Anhui Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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28 Queen's Road East
Wan Chai, Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW

Luk & Partners
In Association with
Morgan, Lewis & Bockius

AUDITORS

KPMG
8th Floor, Prince's Building
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Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, P. O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
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Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Hefei Science and Technology Rural Commercial Bank
Huishang Bank
Hangzhou Bank

COMPANY WEBSITE

http://www.chinaxhedu.com

STOCK CODE

02779

FINANCIAL HIGHLIGHTS

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from published audit financial statements, is set out below:

FOUR-YEAR COMPARISON OF KEY FINANCIAL FIGURES

Results of operation

	For the year ended December 31,			
	2017	2016	2015	2014
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Revenue	**337,958**	303,262	281,646	250,114
Gross profit	**192,477**	179,230	157,795	138,691
Profit for taxation	**174,041**	174,982	151,019	140,542
Profit for the year	**171,958**	172,548	149,971	133,177

Assets and liabilities

	For the year ended December 31,			
	2017	2016	2015	2014
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Current assets	**541,038**	468,150	403,723	383,416
Current liabilities	**326,170**	268,628	348,582	460,699
Net current (liabilities)/assets	**214,868**	199,522	55,141	(77,283)
Total non-current assets	**785,560**	567,470	539,777	522,762
Total equity	**999,925**	766,614	594,662	444,027

Financial ratio

	For the year ended December 31,			
	2017	2016	2015	2014
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Net profit margin (%)	**50.9%**	56.9%	53.2%	53.2%
Current ratio	**1.7**	1.7	1.2	0.8
Return on equity	**19.5%**	25.4%	28.9%	30.0%
Return on assets	**14.6%**	17.4%	16.2%	14.7%

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of China Xinhua Education Group Limited, I am pleased to present the annual results of the Company and its subsidiaries for the year ended December 31, 2017.

OVERVIEW OF THE GROUP

China Xinhua Education is the largest private higher education provider in the Yangtze River Delta. We operated two schools, Xinhua University and Xinhua School. Xinhua University is the largest private formal higher education institution in the Yangtze River Delta, as measured by full time student enrollment as of December 31, 2016, according to Frost & Sullivan; Xinhua School is the largest private specialized secondary school in Anhui Province in terms of student enrollment as of December 31, 2016, according to Frost & Sullivan. The educational mission of Xinhua Education is "to serve our country through education" (興教報國). It is committed to providing applied science education to students and seeks to cultivate high quality talents with applicable skills, potential for future development and an ability and willingness to keep learning. On March 26, 2018, China Xinhua Education was successfully listed on the Main Board of the Hong Kong Stock Exchange, entering the international capital market, marking a new chapter of development and bringing about new momentum for future development.

During the Reporting Period, the Group reported the revenue of RMB338.0 million, representing a year-on-year increase of 11.4%, and the profit for the year of RMB172.0 million, representing a year-on-year decrease of 0.3%. The Board of Directors did not recommend payment of a final dividend for the year ended December 31, 2017.

INDUSTRY OVERVIEW

In 2017, China saw a better-than-expected growth and a steady and sound development of the national economy, with GDP for the year exceeding RMB82.7 trillion, representing a year-on-year increase of 6.9% and the nationwide per capita disposable income reached RMB25,974, representing a year-on-year increase of 9.0%. With the rapid economic growth, improvement in the residential living conditions and accelerated development of domestic new momentum, industries and business forms, people are more aware of the importance of education and have more urgent demand for higher education. Meanwhile, there is a huge gap between limited public higher education resources and the rapidly increasing demand for higher education in China.

The market demand and governmental encouragement become two drivers of growth of the private education industry, thus to expand the room for development of private education, promote the take-off of the private education industry and bring about unprecedented opportunities and challenges for us.

REVIEW OF RESULTS

As at December 31, 2017, the total full-time student enrollments of Xinhua University and Xinhua School operated by the Group were approximately 22,664 and 5,358, respectively, and there were 5,663 students in continuing education program. Xinhua University achieved a high initial graduate employment rate with the average employment rate of 94.4% in 2016-2017 school year for its full-time students, while Xinhua School reported the initial graduate employment rate of approximately 96.8% in 2016-2017 school year.

In September 2017, Xinhua University became one of the only six private higher education institutions in Anhui Province that are not subject to prior approval for tuition fee raises. Xinhua University was among the first batch of private higher education institutions in Anhui Province to be permitted by the Education Department and Price Bureau of Anhui Province to set our own tuition fee rates, which indicates recognition of our reputation and operational success. It is conducive for us to obtain the right to price services and reflects the best quality of the education we provide. In recent years, our revenue from tuition fee has been growing year by year. As Xinhua University was approved to raise the tuition fee independently, we believe that it will further optimize our pricing ability and improve the overall profitability of our Group.

CHAIRMAN'S STATEMENT

With the established extensive industry connections and school-enterprise collaboration programs, Xinhua University has created an educational environment that blends academic teaching with practical training. As at December 31, 2017, Xinhua University has collaborated with over 65 enterprises and jointly established workplace simulation training bases both within and outside the school, among which one is a national level university student external workplace education base, and four are provincial level school-enterprise cooperation education bases.

Meanwhile, we actively expanded our businesses. On November 20, 2017, we entered into a three-year formal agreement with Anhui Medical University to jointly operate the School of Clinical Medicine, pursuant to which we are entitled to the tuition fees relating to those students admitted in 2018-2019 school year and thereafter and are responsible for the operations of the new campus. By entering into this cooperation agreement, we became the only private education institution entitled to medical undergraduate degree courses among Hong Kong listed companies. With the continuous promotion of China's medical service reform, the steady increase in disposable income of China's households and the expanding demand of the market for medical service, the demand for healthcare workers from China's medical service system will be increasingly growing and will provide a momentum for clinical medicine colleges across the country to recruit more students.

In addition, with a view to building our presence overseas and creating synergies with our schools in China, we expand our network abroad. The agents engaged by us assisting us in establishing Xinhua US in the State of Florida, which has started preparation for the operation and recruiting students for 2018-2019 school year and is expected to receive the first batch of student enrollment in September 2018.

FUTURE PROSPECTS

With the strong economic development in China and growth in the disposable income of Chinese residents, the demand for higher education has increased rapidly. According to Frost & Sullivan Report, the CAGR of the total revenue from the Chinese private higher education for the period from 2016 to 2021 is expected to be 7.8%, and the penetration rate of private higher education in China is expected to reach 24.2% in 2021. Meanwhile, due to the two-child policy published by the government, the school-age population of higher education in China is likely to enjoy a steady growth in the future. There will be more opportunities for the development of private higher education, so as to fill the gap between the increasing demand for higher education and the relatively limited higher education resources. The average tuition fee for private higher education in China is expected to continue to increase.

Looking into the future, the Group will take successful listing as an opportunity and tap the market potential and opportunities in the higher education industry in China. We will expand the school network to increase the market share in the private higher education field through acquisition or investment; improve school facilities and educational equipment and continue to increase student enrollment at our existing schools; optimize the pricing for the schools, enhance the profitability and increase sources of income; continuously consolidate the market position and improve brand recognition; continuously attract and retain excellent teachers, provide students with high-quality education, and secure satisfactory returns for shareholders.

On behalf of the Board of Directors, I would like to take this opportunity to express my gratitude to our students, their parents, all shareholders and staff who have always supported the development of China Xinhua Education. The Group's staff will continue to pursue excellence and progress, insist on carrying out the educational mission of "to serve our country through education", foster high-quality talents and create greater value for shareholders with more excellent results.

Wu Junbao
Chairman

Hong Kong
April 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group is a provider of private higher education in China dedicated to providing applied science education to students. As of the date of this report, we operated two schools, Xinhua University, which is a private formal university, and Xinhua School, which is a private secondary vocational school. We control both schools through the Structured Contracts. Our Xinhua University is the largest private formal higher education institution in the Yangtze River Delta, as measured by its full time student enrollment as of December 31, 2016, according to Frost & Sullivan. In addition, our Xinhua School is the largest private specialized secondary school in Anhui Province in terms of student enrollment as of December 31, 2016, according to Frost & Sullivan. Through these schools, we offer our students comprehensive and diversified curriculums, which encompass a broad range of practical major offerings. We have set up workplace simulation training studios which are designed to simulate typical workplaces to allow our students to put into practice the knowledge they learned through our curriculums. In addition, we collaborate with enterprise partners closely and have jointly designed applicable curriculums and established a number of practical training bases and internship bases with them to help students acquire useful skills and find desirable employment.

Our full time student enrollments grew from 27,836 as of December 31, 2016 to 28,022 as of December 31, 2017, as measured by the full time student enrollment. Our revenue increased from RMB303.3 million for the year ended December 31, 2016 to RMB338.0 million for the year ended December 31, 2017. Our profit for the year slightly decreased from RMB172.5 million for the year ended December 31, 2016 to RMB172.0 million for the year ended December 31, 2017, primarily as the result of a significant increase in administrative expenses in 2017 which in turn was primarily due to consultancy fees relating to the Listing.

Going forward, we intend to pursue suitable opportunities for acquisitions or investments primarily in the Yangtze River Delta to expand our school network and increase our market share in the private higher education sector. Meanwhile, we intend to improve our school facilities and educational equipment to increase student enrollment at our existing schools. As we believe we have established a strong reputation for providing quality education to our students, we believe that we are in a position to optimize our pricing without compromising our ability to maintain and grow our student base. Furthermore, we intend to continue to strengthen our market position and enhance our brand recognition in the private education industry in China, particularly in the Yangtze River Delta region. We also intend to continue to attract and retain qualified teachers, improve the overall quality of our teaching staff and build a first-rate team.

Since December 31, 2017 and up to the date of this report, our business generally experienced continued growth and, to the best of our knowledge, there is no change to the overall economic and market condition in China or in the PRC private higher education industry in which we operate that may have a material adverse effect to our business operations and financial position.

RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations.

	Year ended December 31, 2017 (RMB'000)	2016 (RMB'000)
Revenue	**337,958**	303,262
Cost of sales	**(145,481)**	(124,032)
Gross profit	**192,477**	179,230
Other income	**53,796**	44,371
Selling and distribution costs	**(5,375)**	(5,677)
Administrative expenses	**(66,857)**	(42,942)
Profit from operations	**174,041**	174,982
Net finance costs	**–**	–
Profit before taxation	**174,041**	174,982
Income tax	**(2,083)**	(2,434)
Profit for the year	**171,958**	172,548

Revenue

The table below presents a summary of the amount of revenue generated from tuition fees and boarding fees charged by our schools for the periods indicated:

	Year ended December 31, 2017 (RMB'000)	2016 (RMB'000)
Tuition fees		
Xinhua University	**271,849**	243,775
Xinhua School	**29,034**	26,619
Total tuition fees	**300,883**	270,394
Boarding fees		
Xinhua University	**32,389**	27,972
Xinhua School	**4,686**	4,896
Total boarding fees	**37,075**	32,868
Total	**337,958**	303,262

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's revenue increased by 11.4% from RMB303.3 million in 2016 to RMB338.0 million in 2017. This increase was primarily due to an increase in tuition fees from RMB270.4 million for the year ended December 31, 2016 to RMB300.9 million for the year ended December 31, 2017 and an increase in boarding fees from RMB32.9 million for the year ended December 31, 2016 to RMB37.1 million for the year ended December 31, 2017. The tuition fees we received increased primarily because (i) the mix of undergraduate students and junior college students at Xinhua University had changed during this period with the percentage of undergraduate students increasing each year, and the tuition fees that we charged undergraduate students were higher than what we charged junior college students; (ii) we increased tuition fees for the 2017-2018 school year for certain majors of our undergraduate program and junior college program at Xinhua University, and for certain majors offered at Xinhua School; and (iii) our full time student enrollment increased from approximately 27,836 for the 2016-2017 school year as measured by the full time student enrollment as of December 31, 2016 to approximately 28,030 for the 2017-2018 school year as measured by the full time student enrollment as of September 30, 2017. The boarding fees we received increased because our student enrollment increased between these two years and we increased the boarding fee rates we charged per student at Xinhua University between 2016-2017 and 2017-2018 school years.

Cost of Sales

The following table sets forth the components of our cost of sales for the periods indicated:

	Year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Salaries and benefits	**74,136**	68,702
Depreciation and amortization	**36,584**	30,862
Teaching activity costs	**11,607**	10,027
Cost of repair	**8,153**	5,228
Student-related costs	**9,849**	4,310
Utilities	**4,085**	3,892
Others	**1,067**	1,011
Total	**145,481**	124,032

Our cost of sales increased by 17.3% from RMB124.0 million in 2016 to RMB145.5 million in 2017. This increase was primarily due to (i) an increase of RMB5.7 million in depreciation and amortization due to the increase of our property, plant and equipment such as the dormitories and office buildings which were put into operation in 2017; (ii) an increase of RMB5.5 million in student-related costs mainly due to the increased financial aid provided to students at Xinhua University; (iii) an increase of RMB5.4 million in salaries and benefits of our school personnel primarily due to an increase in the average salary level; and (iv) an increase of RMB2.9 million in cost of repair, mainly because we undertook maintenance projects of water supply network and certain canteens at our schools.

Gross Profit and Gross Profit Margin

Our gross profit increased by 7.4% from RMB179.2 million in 2016 to RMB192.5 million in 2017, which was in line with the growth of our business. Our gross profit margin decreased from 59.1% for the year ended December 31, 2016 to 57.0% for the year ended December 31, 2017, primarily due to a larger increase in our cost of sales compared to the increase in our revenue.

Other Income

The table below summarizes the amount of other income for the periods indicated:

	Year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Rental and property management income[1]	**21,311**	20,850
Service income[2]	**14,931**	14,863
Government grants[3]	**6,193**	1,657
Available-for-sale financial assets:		
reclassification from equity on disposal[4]	**9,262**	5,368
Other interest income[5]	**756**	696
Others[6]	**1,343**	937
Total	**53,796**	44,371

Notes:

(1) Primarily includes rental and property management income from our leased premises to Independent Third Parties in connection with the operation of canteens and stores on the campuses of our schools.

(2) Primarily includes income from services we provide for our students, which mainly include purchasing on their behalf text books, dormitory bedding and exam materials.

(3) Primarily includes the grants from the local government for the purpose of contributions towards the operating expenses arising from our schools' teaching activities, scientific research and expenditure on facilities. There are no unfulfilled conditions or contingencies relating to such government grants income recognized.

(4) Primarily consists of gains or losses we recognized upon disposal of wealth management products.

(5) Primarily consists of interest income from our current deposits.

(6) Primarily includes fines we collect from the campus stores resulting from their violations of terms of contracts with us and forfeits of non-refundable tuition fees for withdrawn students.

Other income increased by 21.2% from RMB44.4 million in 2016 to RMB53.8 million in 2017. This increase was primarily due to (i) an increase of RMB4.5 million in government grants which were granted to our Xinhua School to contribute towards our operating expenses arising from teaching activities, school facilities' improvement as well as students' internship and practical training; and (ii) an increase of RMB3.9 million in available-for-sale financial assets reclassification from equity on disposal, primarily reflecting our increased investment in wealth management products in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Costs

Selling and distribution costs decreased by 5.3% from RMB5.7 million in 2016 to RMB5.4 million in 2017, primarily due to a decrease in the salaries and benefits of our school personnel relating to student recruitment primarily because Xinhua University downsized its student recruitment department due to its enhanced profile and brand recognition.

Administrative Expenses

Administrative expenses increased by 55.9% from RMB42.9 million in 2016 to RMB66.9 million in 2017, primarily due to (i) RMB26.2 million of listing expenses we incurred in 2017 in connection with our Listing; (ii) an increase of RMB1.3 million in depreciation and amortization primarily because certain new office buildings and dormitories were put into operation in 2017; and (iii) an increase of RMB0.9 million in salaries and benefits of our administrative staff primarily due to an increase in the average salary level, as partially offset by a decrease of RMB3.1 million in business and travel expenses mainly because we strengthened our cost control measures in 2017.

Profit before Taxation

As a result of the foregoing, we recognized a profit of RMB174.0 million before income tax for the year ended December 31, 2017, compared to a profit of RMB175.0 million before income tax for the year ended December 31, 2016. Our profit before tax as a percentage of revenue was 51.5% for the year ended December 31, 2017, while our profit before tax as a percentage of revenue was 57.7% for the year ended December 31, 2016.

Income Tax Expense

The income tax expense we incurred for the year ended December 31, 2017 was RMB2.1 million, compared to an income tax expense of RMB2.4 million for the year ended December 31, 2016. This decrease was primarily due to a decrease in our taxable income for the year ended December 31, 2017 compared to the year ended December 31, 2016. Our effective tax rate decreased from 1.4% for the year ended December 31, 2016 to 1.2% for the year ended December 31, 2017.

Profit for the Year

As a result of the above factors, we recorded a profit of RMB172.0 million for the year ended December 31, 2017, as compared to a profit of RMB172.5 million for the year ended December 31, 2016.

FINANCIAL AND LIQUIDITY POSITION

Current Assets and Current Liabilities

The following table sets forth details of our current assets and current liabilities as of the dates indicated:

	As of December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
CURRENT ASSETS		
Trade receivables	**201**	1,199
Prepayments, deposits and other receivables	**12,293**	3,532
Amounts due from related parties	**–**	237,477
Available-for-sale financial assets	**235,521**	120,068
Cash and cash equivalents	**293,023**	105,874
TOTAL CURRENT ASSETS	**541,038**	468,150
CURRENT LIABILITIES		
Deferred revenue	**191,773**	166,878
Other payables	**130,932**	87,009
Amounts due to related parties	**511**	9,182
Deferred income	**881**	633
Current taxation	**2,073**	4,926
TOTAL CURRENT LIABILITIES	**326,170**	268,628
NET CURRENT ASSETS	**214,868**	199,522

As of December 31, 2017, we had net current assets of RMB214.9 million compared to net current assets of RMB199.5 million as of December 31, 2016. Our net current assets as of December 31, 2017 increased by 7.7% from as of December 31, 2016 primarily as a result of (i) an increase in cash and cash equivalents, which increased from RMB105.9 million as of December 31, 2016 to RMB293.0 million as of December 31, 2017; and (ii) an increase of RMB115.5 million in available-for-sale financial assets as a result of the financial investments we made in 2017, as partially offset by (i) a decrease of RMB237.5 million in amounts due from related parties, which had been repaid in full as of December 31, 2017; (ii) an increase of RMB24.9 million in deferred revenue due to the increased tuition fees and boarding fees we received from students for the 2017-2018 school year; and (iii) an increase of RMB43.9 million in other payables, which was mainly due to an increase of RMB12.7 million in payables to suppliers as a result of the increase in building construction fees which had not yet been settled and an increase of RMB25.8 million in accrued listing expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade Receivables

Our trade receivables as of December 31, 2016 and 2017 were RMB1.2 million and RMB0.2 million, respectively. The following table sets forth the ageing analysis of our trade receivables based on the transaction date as of the dates indicated:

	For the Year Ended December 31,	
	2017	2016
	RMB'000	RMB'000
Within 1 year	**201**	1,182
More than 1 year but less than 2 years	**–**	17
	201	1,199

Our trade receivables decreased from RMB1.2 million for the year ended December 31, 2016 to RMB0.2 million for the year ended December 31, 2017 primarily reflecting the payment of rental fees by the Independent Third Parties who rented our properties to operate on-campus canteens and stores.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables mainly represented (i) the amounts due from third parties; (ii) listing expenses incurred that will be capitalized after the Listing; and (iii) reimbursable advances to employees for business travel, training, procurement, student recruitment campaigns and other expenses to be incurred in the ordinary course of our business. Advances to employees were unsecured, interest-free and repayable on demand. All of the prepayments are expected to be settled or recognized as profit or loss within one year. The following table sets forth our prepayments, deposits and other receivables as of the dates indicated:

	For the Year Ended December 31,	
	2017	2016
	RMB'000	RMB'000
Prepayments and deposits	**1,129**	1,209
Other receivables	**11,164**	2,323
	12,293	3,532

Our prepayments, deposits and other receivables increased from RMB3.5 million as of December 31, 2016 to RMB12.3 million as of December 31, 2017, primarily reflecting an increase of RMB8.8 million in other receivables, which in turn primarily reflected (i) a portion of the listing expenses we have incurred that will be capitalized after the Listing; and (ii) an increase in utility fees owed to us by the Independent Third Parties who rented our properties to operate on-campus canteens and stores.

Available-for-sale Financial Assets

Available-for-sale assets reflect investments we made in available-for-sale securities, which primarily represent short-term wealth management products with various investment interest issued by licensed commercial banks in the PRC. We made investments in these financial products primarily for the purpose of gaining higher short-term investment returns than the fixed rate returns from cash deposits at commercial banks. The following table sets forth our available-for-sale financial assets as of the dates indicated:

	For the Year Ended December 31,	
	2017	2016
	RMB'000	RMB'000
Available-for-sale securities	**235,521**	120,068

Our available-for-sale securities mainly consist of low-risk wealth management products that we purchase as part of our cash management strategy in order to obtain higher yields than we can receive on regular bank deposits.

Our available-for-sale securities increased by 96.1% from RMB120.1 million in 2016 to RMB235.5 million in 2017, primarily because we made additional financial investments utilizing our increased cash on hand in 2017.

Cash and Cash Equivalents

Our Group has maintained a relatively stable cash management strategy. Our cash and cash equivalents increased from RMB105.9 million as of December 31, 2016 to RMB293.0 million as of December 31, 2017.

Deferred Revenue

Our deferred revenue consists of tuition fees and boarding fees we typically collect from our students prior to the commencement of the upcoming school year or semester. It represents the tuition and boarding payments received from students but not earned. Our students are entitled, however, to a refund of a portion of their tuition and boarding payments pursuant to our refund policy if they withdraw from our schools. For more details of our refund policy, please refer to the section headed "Business – Our Schools – Student Withdrawals and Refund" in the Prospectus. The following table sets forth the balance of our deferred revenue as of the dates indicated:

	For the Year Ended December 31,	
	2017	2016
	RMB'000	RMB'000
Tuition fees	**165,174**	146,581
Boarding fees	**26,599**	20,297
	191,773	166,878

The amount of deferred revenue as of December 31 generally represents the substantial majority of tuition fees and boarding fees received from our students for the entire school year, but which has yet to be recognized as revenue for the remainder of the school year (generally from January to August).

Deferred revenue increased by 14.9% from RMB166.9 million in 2016 to RMB191.8 million in 2017, primarily attributable to increased tuition fees and boarding fees we received for the 2017-2018 school year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Payables

Our other payables primarily consist of (i) miscellaneous expenses received from students which will be paid out on behalf of students; (ii) accrued expenses; (iii) payables to suppliers in connection with purchases of property, plant and equipment; (iv) accrued staff costs; (v) interest payable; and (vi) others. The following table sets forth our other payables as of the dates indicated:

	For the Year Ended December 31,	
	2017	2016
	RMB'000	RMB'000
Miscellaneous expenses received from students	**31,300**	30,199
Accrued expenses	**5,943**	9,565
Payable to suppliers	**29,173**	16,460
Accrued staff costs	**13,032**	12,256
Interest payable	**–**	–
Others	**25,682**	18,529
Accrued listing expenses	**25,802**	–
Total	**130,932**	87,009

Other payables increased by 50.5% from RMB87.0 million as of December 31, 2016 to RMB130.9 million as of December 31, 2017, primarily due to (i) an increase of RMB25.8 million in accrued listing expenses; (ii) an increase of RMB12.7 million in payables to suppliers as a result of the increase in building construction fees due to the increase in construction work in 2017 relating to additional dormitories and office buildings; and (iii) an increase of RMB7.2 million in others as a result of government scholarships and financial aid we received on behalf of our students and deposits and advance rental payments we received from the Independent Third Parties that rent our properties, which were partially offset by a decrease of RMB3.6 million in accrued expenses primarily because our suppliers accelerated the issuance of invoices to us to facilitate our payment.

Deferred Income

Our deferred income primarily consists of government grants in connection with our research and teaching projects. Our deferred income as of December 31, 2016 and 2017 were RMB1.0 million and RMB1.4 million, respectively.

Current Taxation

As of December 31, 2016 and 2017, our current taxation balance was RMB4.9 million and RMB2.1 million, respectively.

CAPITAL EXPENDITURES AND CONTRACTUAL COMMITMENTS

Capital Expenditures

Our capital expenditures have been primarily used for the purchase of property, plant and equipment. For the years ended December 31, 2016 and 2017, our capital expenditures were RMB62.3 million and RMB258.3 million. Our capital expenditures for these years primarily related to the refurbishment of existing school premises and the purchase of additional equipment for our schools. Our capital expenditure in 2017 also includes the consideration we paid to Anhui Medical University in cash as a prepayment with an amount of approximately RMB196.0 million. We have funded these capital expenditures primarily with cash generated from operations.

Capital Commitments

Our capital commitments primarily relate to the acquisition of property, plant and equipment. The following table sets forth a summary of our capital commitments as of the dates indicated:

	Year ended December 31,	
	2017	2016
	(RMB'000)	(RMB'000)
Contracted for	**15,261**	39,690
Authorized but not contracted for	**107,500**	–
Total	**122,761**	39,690

INDEBTEDNESS

As of December 31, 2017, we did not have any outstanding bank loans (December 31, 2016: nil). As of December 31, 2017, the total amount of our unutilized banking facilities was RMB216.0 million (December 31, 2016: RMB230.0 million). Our Directors confirm that there has not been any material change in the indebtedness commitments and contingent liabilities of our Group since December 31, 2017 and up to the date this report.

CONTINGENT LIABILITIES

As of December 31, 2017, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

MANAGEMENT DISCUSSION AND ANALYSIS

KEY FINANCIAL RATIOS

	As of/for the year ended December 31,	
	2017	2016
Net profit margin(1)	**50.9%**	56.9%
Current ratio(2)	**1.7**	1.7
Return on equity(3)	**19.5%**	25.4%
Return on assets(4)	**14.6%**	17.4%

Notes:

(1) Net profit margin was calculated based on our profit for the relevant year divided by our total revenue for the same year.

(2) Current ratio was calculated based on our total current assets divided by our total current liabilities as of the end of the year.

(3) Return on equity equals profit for the year divided by average total equity amounts as of the end of the year.

(4) Return on assets equals profit for the year divided by average total assets as of the end of the year.

Net Profit Margin

Our net profit margin decreased from 56.9% for the year ended December 31, 2016 to 50.9% for the year ended December 31, 2017, mainly as a result of the significant increase in our administrative expenses due to the listing expenses we incurred in connection with our Listing.

Current Ratio

Our current ratio remained relatively stable, which was 1.7 as of December 31, 2016 and 1.7 as of December 31, 2017.

Return on Assets and Return on Equity

Our return on assets ratio was 14.6% as of December 31, 2017, and return on equity ratio was 19.5% as of December 31, 2017. Both of the return ratios as of December 31, 2017 were lower than the return ratios as of December 31, 2016 primarily due to (i) the increases in our average total assets and average total equity; and (ii) a slight decrease in our profit for the year.

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

Credit Risk

Our Group's credit risk is primarily attributable to trade and other receivables and financial assets which comprise bank balances and available-for-sale securities. Our management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, the balances represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. Our Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year or semester, which normally commences in September or February. Our Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by our senior management. In view of the aforementioned and the fact that our Group's trade receivables relate to a large number of diversified students, there is no significant concentration of credit risk. Our Group does not hold any collateral or other credit enhancements over our trade receivable balances.

In respect of other receivables, individual credit evaluations are performed on all counterparty requiring credit over a certain amount. These evaluations focus on our counterparty's past history of making payments when due and current ability to pay, and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. In view of the fact that our Group's other receivables relate to a large number of diversified counterparties, there is no significant concentration of credit risk. Our Group does not hold any collateral or other credit enhancements over its other trade receivable balances. Other receivables are non-interest-bearing.

In respect of available-for-sale securities, our Group transacts mainly with recognized and creditworthy banks, and the maximum exposure equal to the carrying amount of these securities.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity Risk

Liquidity risk is the risk that our Group will not be able to meet our financial obligations as they fall due.

Our Group's approach to managing liquidity is to ensure, as far as possible, that we will always have sufficient liquidity to meet our liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to our Group's reputation.

Our Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following are the contractual maturities of our Group's financial liabilities at the end of the respective reporting period, which are based on contractual undiscounted cash flows and the earliest date our Group can be required to pay:

	As of December 31, 2017 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Other payables	**130,932**	**–**	**130,932**	**130,932**
Amounts due to related parties	**511**	**–**	**511**	**511**
	131,443	**–**	**131,443**	**131,443**

	As of December 31, 2016 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Other payables	87,009	–	87,009	87,009
Amounts due to related parties	9,182	–	9,182	9,182
	96,191	–	96,191	96,191

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Chairman and non-executive Director

Mr. Wu Junbao (吳俊保), aged 52, the founder of the Group, was appointed as the chairman and a non-executive Director of the Company on October 27, 2017.

Mr. Wu has more than 18 years of experience in education. The following table shows the key working experience of Mr. Wu:

Period	Company	Position	Roles and responsibilities
September 1999 to September 2017	Xinhua Group	General manager	In charge of strategic planning, supervision of the overall management operation, improvement and implementation of the corporate governance and formulation of business objectives
September 1999 to present	Xinhua Group	Chairman and director	In charge of strategic planning, supervision of the overall management operation and improvement and implementation of the corporate governance
June 2000 to present	Xinhua University	Chairman and director	In charge of strategic planning, supervision of the overall management operation and improvement and implementation of the corporate governance

Mr. Wu obtained the qualification as a senior economist granted by the Personnel Bureau of Hefei City (合肥市人事局) in July 2004. He graduated from Anhui Institute of Business Administration (安徽工商管理學院) in Hefei City, Anhui Province, the PRC with a degree of master of business administration in December 2003.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Lu Zhen (陸真), aged 42, joined the Group in October 2014 and was appointed as an executive Director of the Company on October 27, 2017. Mr. Lu has also been a director of Xinhua Group since October 2015 and the executive vice president of Xinhua Group since May 2017. He is responsible for the day-to-day management as well as operation and management of education related matters of our Group.

Mr. Lu has more than 8 years of experience in education. The following table shows the key working experience of Mr. Lu:

Period	Company	Position	Roles and responsibilities
July 1999 to February 2005	Hefei Meiling Co., Ltd.* (合肥美菱股份有限公司)	Business manager	In charge of business and operation management including overseeing the sales of products, staff training, logistic and warehouse management, and distributor and customer relationship management
February 2005 to February 2009	Hefei Meiling Home Appliances Industrial and Trading Company Limited* (合肥美菱家電工貿有限公司)	General manager for Anhui division	In charge of business management including overseeing the planning and performance of the sales targets and marketing strategies, sale team training and management, and account receivables and finance management
August 2009 to November 2011 and December 2013 to October 2014	Xinhua Education Group	Deputy head/marketing operation manager/ general manager of computer business department	In charge of daily operation and management of the department as well as marketing management
November 2011 to November 2013	Shandong Xinhua Computer College* (山東新華電腦學院)	Deputy principal/ principal	In charge of the management, financial and supervision matters
October 2014 to present	Xinhua University	Deputy principal/ executive director/ executive deputy principal	In charge of the university office, departments of personnel, finance and asset management
March 2015 to present	Xinhua Group	Assistant to the president/ director/vice president/ executive vice president	In charge of the management of Xinhua University and Xinhua School and the management of the Group's finance and human resources departments

Mr. Lu graduated from Zhengzhou Institute of Textile Industry* (鄭州紡織工學院, currently known as Zhongyuan University of Technology (中原工學院)) in Zhengzhou City, Henan Province, the PRC with a bachelor degree majoring in mechanical engineering in July 1999 and graduated from Nanjing University (南京大學) in Nanjing City, Jiangsu Province, the PRC with a degree of master of business administration in March 2009.

Mr. Wang Yongkai (王永凱), aged 60, joined the Group in March 2003 and was appointed as an executive Director of the Company on October 27, 2017. Mr. Wang has also been a director of Xinhua University since December 2004 and the executive president of Xinhua Group since June 2011. He is responsible for the business management as well as investment and financing management of our Group.

Mr. Wang has more than 14 years of experience in education and financial matters. The following table shows the key working experience of Mr. Wang:

Period	Company	Position	Roles and responsibilities
March 2003 to present	Xinhua Group	Chief financial officer/ deputy general manager/ director/executive president	In charge of the financial management of the Group
December 2004 to present	Xinhua University	Director	In charge of general administration and business management

Mr. Wang obtained the qualification as a senior economist granted by the Personnel Bureau of Hefei City in December 2008. He graduated from Hefei Rural Economic Management Cadre College* (合肥農村經濟管理幹部學院, currently known as Anhui Economic Management Cadre College* (安徽經濟管理幹部學院)) in Hefei City, Anhui Province, the PRC majoring in financial accounting and statistics in July 1989 and graduated from China Europe International Business School (中歐國際工商學院) in Shanghai, the PRC with a degree of master of business administration in October 2011.

Ms. Wang Li (王麗), aged 40, joined the Group in July 2000 and was appointed as an executive Director of the Company on October 27, 2017. Ms. Wang has also been the deputy principal of Xinhua University since January 2016. She is responsible for the administrative and human resources matters of our Group.

Ms. Wang has more than 17 years of experience in education. The following table shows the key working experience of Ms. Wang:

Period	Company	Position	Roles and responsibilities
July 2000 to August 2008 and June 2012 to March 2015	Xinhua Group	Office clerk/office manager/deputy manager of the human resource development center of the human resources department/vice general manager of the administrative center	In charge of the daily management in the office, administrative and human resources management
August 2008 to January 2011 and May 2014 to present	Xinhua University	Head of the department of personnel/assistant to principal/deputy principal	In charge of the personnel management, salary and welfare and other human resources matters, asset management and material procurement as well as student management, security and information technology development matters

DIRECTORS AND SENIOR MANAGEMENT

Ms. Wang obtained the certificate of accounting professional granted by Hefei Municipal Finance Bureau (合肥市財政局) in December 2005 and the qualification of enterprise human resources administrator (class II) granted by Ministry of Labour and Social Security Employment and Training Division* (勞動和社會保障部就業培訓司) in July 2008. She graduated from Anhui University (安徽大學) in Hefei City, Anhui Province, the PRC with a bachelor degree majoring in data management in July 2000.

Independent non-executive Directors

Ms. Zhang Kejun (張可君), aged 68, was appointed as an independent non-executive Director of our Company on October 27, 2017.

The following table shows the key working experience of Ms. Zhang:

Period	Company	Position
August 1976 to January 1980	Shanxi Yuanping Agriculture College* (山西原平農學院)	Teacher
January 1980 to December 1984	Heifei Supply and Marketing School* (合肥供銷學校)	Successively served as teacher, deputy principal, member of the Party Committee
December 1984 to August 1988	Education Department of Supply and Marketing Cooperative of Anhui Province* (安徽省供銷社教育處)	Department head
August 1988 to December 2002	Anhui Trade School* (安徽省貿易學校)	Principal; deputy secretary of Party Committee
December 2002 to June 2003	Anhui Finance and Trade School Heifei Vocational Technical Institute* (安徽財貿學院合肥職業技術學院)	Secretary of Party Committee
June 2003 to July 2005	Party Committee/Retire Department of Supply and Marketing Cooperative of Anhui Province* (安徽省供銷社機關黨委、離退休處)	Deputy secretary in charge* (專職副書記)/ Department head
December 2005 to October 2014	Xinhua University	Deputy secretary of Party Committee/deputy principal/director

Ms. Zhang graduated in April 1980 from Shanxi University (山西大學), the PRC, majoring in political science and graduated in June 1992 from the Party School of the Central Committee of Communist Party of China (中共中央黨校函授學院), the PRC, majoring in party and government administration (黨政管理) (a long distance learning course). Ms. Zhang obtained the qualification as a senior lecturer (secondary vocational school) (高級講師(中專教師系列)) from the committee for appraisal of senior lecturers for secondary vocational school of Anhui Province* (安徽省中等專業學校高級講師職務評審委員會), the PRC, in December 1994, and the qualification as associate professor (higher education) (思想政治副教授(高教系列)) from the committee for appraisal of teachers for higher education of Anhui Province* (安徽省高等學校教師職務評審委員會), the PRC, in November 2009.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yang Zhanjun, aged 48, was appointed as an independent non-executive Director of the Company on October 27, 2017.

The following table shows the key working experience of Mr. Yang:

Period	Company	Position
March 2008 to December 2017	Keiser University	Associate dean of business/vice chancellor of international affairs
February 2018 to present	American Higher Education Alliance	Senior executive

Mr. Yang was awarded a degree of master of business administration from Florida International University in Miami, the U.S., in December 2002.

Mr. Chau Kwok Keung (鄒國強), aged 41, was appointed as an independent non-executive Director of the Company on October 27, 2017.

The following table shows the key working experience of Mr. Chau:

Period	Company	Position
January 2001 to June 2002	Andersen & Co.	Experienced staff accountant/senior consultant
June 2002 to August 2003	Shanghai Hawei New Material and Technology Co., Ltd.	Financial controller
August 2003 to April 2005	China South City Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 1668)	Deputy group financial controller
October 2005 to October 2007	China. com Inc., a company whose shares are listed on the Stock Exchange (stock code: 8006)	Qualified accountant/chief financial officer/ company secretary/authorised representative
May 2010 to June 2013	RIB Software AG, a German software company whose shares are listed in Frankfurt Stock Exchange (stock code: RSTAG)	a member of supervisory board
May 2014 to present	Qingdao Port International Co., Ltd., a company whose shares are listed on the Stock Exchange (stock code: 6198)	Independent non-executive director, chairman of the audit committee
October 2015 to present	The9 Limited, whose shares are listed by way of American Depositary Shares on the NASDAQ (stock code: NCTY)	Independent director
November 2007 to present	Comtec Solar Systems Group Limited ("**Comtec**"), a company whose shares are listed on the Stock Exchange (stock code: 712)	Executive director, chief financial officer, company secretary, and directors of certain subsidiaries of Comtec

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chau was awarded a bachelor's degree in business administration from the Chinese University of Hong Kong in May 1998. Mr. Chau has been a member of the Association of Chartered Certified Accountants since June 2002, a member of Hong Kong Institute of Certified Public Accountants since July 2005 and a chartered financial analyst of CFA Institute since September 2003.

SENIOR MANAGEMENT

Mr. Huang Yuan (黃源), aged 54, joined the Group in January 2015. Mr. Huang has been the vice president of the Xinhua Group since January 2015, and the chairman of the board of supervisors of Xinhua University since March 2015. Mr. Huang is responsible for the Group's internal audit.

Mr. Huang has more than 15 years of experience in education. The following table shows the key working experience of Mr. Huang:

Period	Company	Position
September 2002 to March 2004	Anhui Xinhua Real Estate Co., Ltd.* (安徽新華房地產有限公司)	Vice general manager and manager of procurement department
March 2004 to April 2008	Anhui New East Cuisine Education Institute	Principal
April 2008 to January 2015	Xinhua Education Group	Vice general manager
January 2015 to present	Xinhua Group	Vice president
March 2015 to present	Xinhua University	Chairman of the board of supervisors

Mr. Huang graduated from Renmin University of China (中國人民大學) in Beijing, the PRC with a degree of master of business administration in November 2008.

Mr. Ni Zheng (倪徵), aged 41, joined the Group in December 2012 and was appointed as the chief officer of international operations on October 31, 2017. Mr. Ni has also been the deputy principal of Xinhua University since July 2017. He is responsible for the overall management of international operations.

Mr. Ni has more than 4 years of experience in education. The following table shows the key working experience of Mr. Ni:

Period	Company	Position
December 2012 to April 2016 and July 2017 to present	Xinhua University	Deputy principal
April 2016 to July 2017	Hefei Xinhua Experimental Middle School * (合肥新華實驗中學)	Chairman
August 2016 to January 2017	Anhui Youbangxue Education and Technology Company Limited* (安徽優邦學教育科技有限公司)	General manager
January 2017 to July 2017	Anhui Youbangxue Education and Technology Company Limited* (安徽優邦學教育科技有限公司)	Vice general manager, general manager of the business department No. 1 and the head of the branding operation department
July 2017 to present	Xinhua Group	General manager of the investment department and the head of the education development department

Mr. Ni graduated from Huainan Normal College* (淮南師範專科學校, currently known as Huainan Normal University (淮南師範學院)) in Huainan City, Anhui Province, the PRC majoring in Chinese language and literature in July 2000 and graduated from Guizhou University (貴州大學) in Guiyang City, Guizhou Province, the PRC with a degree of master of business administration in June 2017.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Wang Jihong (王繼紅) (also known as **Wang Ke (王可)**), aged 59, joined the Group in February 1998 and was appointed as the chief strategic officer of our Company on October 31, 2017. Ms. Wang has also been a council member of Xinhua School since June 2009 and deputy principal of Xinhua University since April 2016. She is responsible for the strategic planning of our Group.

Ms. Wang has more than 15 years of experience in education. The following table shows the key working experience of Ms. Wang:

Period	Company	Position
August 2002 to June 2004 and March 2005 to present	Xinhua School	Assistant to principal/deputy principal/principal/council member
July 2004 to March 2005	Xinhua Group	Vice manager of human resource department
June 2014 to April 2016	Hefei Xinhua Experimental Middle School* (合肥新華實驗中學)	Principal/chairman
April 2016 to present	Xinhua University	Deputy principal

Ms. Wang obtained the qualification as a geological surveying engineer in June 2004 and was awarded the Outstanding Principal of Private Education in Anhui Province* (安徽省民辦教育優秀校長) jointly issued by the Private Education Professional Committee of Chinese Society for Taoxingzhi Studies* (中陶會民辦教育專業委員會) and the Education Society of Anhui Province* (安徽省教育學會) in October 2010. She was appointed as the vice president of Anhui Institute of Vocational and Adult Education, Vocational Branch* (安徽省職業與成人教育學會中職分會) in 2007 and as the vice president of Hefei Private Education Association* (合肥市民辦教育協會) in December 2013. She graduated from Anhui Open University (安徽廣播電視大學) in Hefei City, Anhui Province, the PRC majoring in basic management of Party and government cadres in July 1986.

Ms. Ko Nga Kit (高雅潔), is a vice president of SW Corporate Services Group Limited and has over 25 years of experience in the corporate services field. She is a fellow member of both of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. In addition, she holds a bachelor's degree in laws and a post-graduate diploma in corporate compliance.

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended December 31, 2017.

GLOBAL OFFERING

The Company was incorporated on August 30, 2017 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange on March 26, 2018 (the "**Listing Date**").

PRINCIPAL ACTIVITIES

The Company is a leading private higher education provider in the Yangtze River Delta. Analysis of the principal activities of the Group during the year ended December 31, 2017 is set out in the note 1 to the consolidated financial statements.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at December 31, 2017 are set out in note 15 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended December 31, 2017 are set out in the consolidated statement of profit or loss on page 80 of this annual report.

FINAL DIVIDENDS

The Board did not recommend the payment of a final dividend for the year ended December 31, 2017. There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

MARKET REVIEW

According to the independent market research reported dated December 31, 2017, commissioned by the Company on the private education market of the PRC and prepared by Frost & Sullivan ("**Frost & Sullivan Report**"), The PRC education industry has exhibited strong growth over the past five years, mainly driven by rising government public expenditure and private consumption. According to National Bureau of Statistics of China and the MOE, China's total public expenditure on education increased from RMB2,314.8 billion in 2012 to RMB3,137.3 billion in 2016, representing a CAGR of 7.9%. China's total public expenditure on education in 2016 represented approximately 4.2% of China's overall nominal GDP. For the year ended December 31, 2016, PRC public expenditure accounted for approximately 80.7% of the total revenue generated by the PRC education industry.

While the PRC government has continued to increase its budget on education, compared with developed countries, China still lagged behind as of 2015 in terms of public expenditure on education as percentage of GDP. For example, China's public expenditure on education in 2016 was approximately 4.2% of its GDP, which was less than that of the United States (6.0%), France (5.5%) and United Kingdom (5.3%), according to the Frost & Sullivan Report. Going forward, the PRC government is expected to further strengthen its investment in education.

Despite increasing public expenditure on education, the Chinese per capita annual expenditure of urban households on education grew from RMB820 in 2012 to RMB1,070 in 2016, representing a CAGR of 6.9%, which was associated with the increasing annual disposable income of urban households in China. Looking forward, with the increasing wealth of Chinese households and continued consciousness of Chinese parents regarding their children's education, per capita annual expenditure of urban households on education is likely to reach RMB1,487 by 2021 with a CAGR of 6.8% from 2016 to 2021, according to the Frost & Sullivan Report.

REPORT OF THE DIRECTORS

From 2012 to 2016, the number of student enrollment in the education industry in China has slightly increased from 250.3 million to 253.7 million, representing a CAGR of 0.3%. While both fundamental education and secondary vocational education have suffered from the decreasing school-age population and experienced a fluctuating period or downward trend, the number of students enrolled in higher education increased from 25.6 million in 2012 to 28.9 million in 2016, representing a CAGR of approximately 3.1%. The growth was mainly driven by the increasing enrollment rate with the relaxation of the one-child policy. By 2021, the number of student enrollment is expected to reach 33.0 million, 14.4 million, 229.2 million in higher education, secondary vocational education, and fundamental education, respectively, representing a CAGR of 2.7%, -0.3% and 1.7%, respectively.

The private higher education industry in China has experienced rapid growth from the beginning of 1990s as it entered the phase of regulated development when the relevant government authorities made great effort in completing the regulative framework for private higher education, according to the Frost & Sullivan Report. Private higher education institutions in China can be divided into three categories, namely, private regular universities (民辦普通本科), independent colleges (獨立學院) and private junior colleges (民辦普通專科). Private higher education institutions are distinct from public institutions of higher education mainly in that public institutions of higher education are under the direct administration of the PRC national or local governments and their major source of funding is PRC public expenditure on education.

The total revenue of the private higher education industry has increased from RMB69.6 billion in 2012 to RMB95.4 billion in 2016, representing a CAGR of 8.2%. Going forward, the total revenue of private higher education in China is expected to increase from RMB95.4 billion in 2016 to RMB139.0 billion in 2021, representing an expected CAGR of 7.8%. As of December 31, 2016, the total revenue of the private higher education was approximately RMB95.4 billion in China, representing approximately 9.4% of the total revenue generated from higher education industry in China.

From 2012 to 2016, the total number of student enrollment in private higher education in China increased from 5.3 million to 6.3 million, representing a CAGR of approximately 4.4%. In 2021, the number is expected to increase to 8.0 million with a CAGR of 4.8% from 2016. Students enrolled in undergraduate and graduate program accounted for the largest portion of the number of student enrolled in private higher education in China. From 2012 to 2016, the number of student enrollment in undergraduate and graduate program increased from 3.4 million to 3.9 million, representing a CAGR of approximately 3.5%. In 2021, the number is expected to increase to 4.8 million with a CAGR of 4.2% from 2016. From 2012 to 2016, the number of student enrollment in junior college program increased from 1.9 million to 2.4 million, representing a CAGR of approximately 6.0%. The number is expected to reach 3.2 million in 2021, with a CAGR of 5.7% from 2016.

The penetration rate of private higher education as a whole in China has increased from 20.8% in 2012 to 21.9% in 2016, indicating that more students have chosen to go to private universities or colleges instead of public ones, and the trend is likely to continue as the penetration rate is expected to reach 24.2% in 2021.

As of December 31, 2016, the student enrollment rate of higher education industry in China was approximately 40.8%. According to the 13th five-year-plan in education industry issued by the State Council, the student enrollment rate of higher education industry in China is expected to reach 50.0%, so that more people are able to receive higher education in the future. Frost & Sullivan also estimates that the school-age population of higher education in China is likely to enjoy a steady growth in the future after the PRC government issued the two-child policy in 2015. The increasing student enrollment rate and school-age population of higher education will result in increased demand in the China higher education industry. Private higher education will gain more opportunities for development to fill the gap between the increasing demand for higher education and the relatively limited public higher education resources.

According to the Frost & Sullivan Report, the average tuition fee for private higher education in China is expected to continue to increase, given that (i) although the higher education industry in China is relatively fragmented and highly competitive, compared with the growing demand for higher education, the education resources in both public higher education and private higher education will still be relatively limited in the next few years; and (ii) relevant PRC government authorities have been gradually lifting certain restrictions on the private higher education industry and have given more autonomy to the private higher education institutions in determining their tuition fees, admissions and major offerings. Thus, the expected increasing average tuition fee is likely to further drive the growth of the higher education industry in China in the future.

Business Overview

The Group is the largest private higher education provider in the Yangtze River Delta, as measured by the full time student enrollment of our higher education programs as of December 31, 2016, according to Frost & Sullivan. The Group operates two schools, Xinhua University, which is a private formal university, and Xinhua School, which is a private secondary vocational school. The Group controls both schools through the Structured Contracts. Xinhua University is the largest private formal higher education institution in the Yangtze River Delta, as measured by its full time student enrollment as of December 31, 2016. Xinhua School is the largest private specialized secondary school in Anhui Province in terms of student enrollment as of December 31, 2016.

According to Frost & Sullivan, only approximately 40.8% of the college-aged population in China was enrolled in higher education institutions as of December 31, 2016, compared with an average of approximately 64.0% and 87.0% in developed countries in Europe and North America, respectively. Meanwhile, with the strong economic development in China and increasing disposable income of Chinese residents, demand for higher education has been increasing at a fast pace, according to Frost & Sullivan. As such, we believe there is significant market potential in China for the growth of private higher education. At the same time, private providers of higher education are expected to fill the gap between the rapid increase in market demand and the relatively limited public higher education resources, according to Frost & Sullivan. In light of this industry background, we believe that, as a private provider of higher education focusing on applied sciences, we are well-positioned to capitalize on the market potential and opportunities in the PRC higher education sector.

Students

The Group provides high-quality education to our students, including both formal university education and vocational education in a wide selection of fields in applied sciences. The Group's comprehensive and diversified curriculums, which encompass a broad range of practical major offerings, are designed to equip its students with readily applicable and practical skills and enable them to meet the demands of a rapidly evolving labor market. The Group adjusts its major offerings from time to time based on the extensive and on-going market research the Group conduct to determine employer preferences and labor market demands. The Group has set up workplace simulation training studios which are designed to simulate typical workplaces to allow its students to put into practice the knowledge they learned through our curriculums. In addition, the Group collaborates with enterprise partners closely and have jointly designed applicable curriculums and established a number of practical training bases and internship bases with them to help students acquire useful skills and find desirable employment. As a result, the Group has achieved high initial graduate employment rates of approximately 96.1% and 94.4% in 2015-2016 and 2016- 2017 school years, respectively, for the full time students at Xinhua University, compared with the relevant industry averages in China of 77.9% and 78.4% for the same periods, according to Frost & Sullivan. The Group also provides continuing education to adult students at Xinhua University. The initial graduate employment rates for our students at Xinhua School were approximately 96.0% and 96.8% in 2015 and 2016, respectively. The Group believes the relatively high initial graduate employment rates it has achieved attests to the effectiveness of its educational approach, which will continue to enhance our reputation, raise its profile and attract talented students.

REPORT OF THE DIRECTORS

Teachers

The Group believes that hiring, retaining and training high quality teaching staff is a critical part of providing high quality education to students, as the quality of education the Group provides is closely tied to the quality of our teachers. Teacher recruitment and retention is one of its top priorities. The Group has formulated and implemented strict standards and procedures for teacher recruitment to ensure that its teachers possess a high level of professional expertise as well as teaching experience. The Group emphasizes the development of teachers that excel in teaching applied skills and is familiar with the "industry-academics-research" (IAR) cooperative education concept (產學研合作教育). Through the targeted efforts, the Group has built a team of teachers with "dual capabilities" who are familiar with the needs of both schools and enterprises and well-qualified to deliver applied skill-focused curriculums.

As of December 31, 2017, the Group had a full time teaching staff consisting of 617 teachers in total at our two schools. Almost all of these full time teachers had bachelor's degrees and approximately 82.0% had master's degrees or above. As of December 31, 2017, approximately 53.2% of the Group's full time teachers held the intermediate professional title and approximately 22.5% of our full time teachers held the senior professional title. To attract strong teacher candidates, the Group has implemented rigorous selection procedures under which applicants are required to teach a live class, conduct in-person interviews and/or complete written assessments so it can evaluate and assess his or her performance. The Group offers mandatory and on-the-job training courses for newly hired teachers, as well as continuing training programs for existing teachers so that they can stay abreast of the changes in the profession and master new teaching techniques and skills. As of December 31, 2017, approximately 56.2% of the Group's full time teachers had been with the Group for five years or above, and approximately 24% had been with the Group for over ten years. The Group believes that it has a relatively low teacher turnover ratio. The Group believes that its highly qualified and stable teaching staff is one of the key reasons for its success.

Principal Risk and Uncertainties and Risk Management

The Group is exposed to various risks in the operations of our business and it believes that risk management is important to its success. Key operational risks faced by it include, among others, changes in general market conditions and perceptions of private education, changes in the regulatory environment in the PRC private education industry, its ability to offer quality education to the students, its ability to increase student enrollment and/or raising tuition rates, its potential expansion into other regions in China or overseas, availability of financing to fund its expansion and business operations and competition from other school operators that offer similar or higher quality of education and have similar scale.

In addition, the Group also faces numerous market risks, such as interest rate, credit and liquidity risks that arise in the normal course of its business.

Credit Risk

The Group's credit risk is primarily attributable to trade and other receivables and financial assets which comprise bank balances and available-for-sale securities. its management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

To properly manage these risks, the Group has established the following risk management structures and measures:

- The Board of Directors is responsible and has the general power to manage the operations of our schools, and is in charge of managing the overall risks of the Company. It is responsible for considering, reviewing and approving any significant business decision involving material risk exposures, such as the decision to expand the Group's school network into new geographic areas, to raise its tuition fees, and to enter into cooperative business relationships with third parties to establish new schools and/or new programs;

- The Group maintains insurance coverage, which it believes is in line with customary practice in the PRC education industry, including school liability insurance; and

- The Group has made arrangements with banks to ensure that it is able to obtain credits to support the business operation and expansion.

Health and Safety Matters

The Group is dedicated to protecting the health and safety of its students. Each of its schools has adopted and implemented student health and safety measures and procedures to protect its students from bodily harm and other health and safety risks. The Group provides routine medical services for the students and faculty by outsourcing such services to third party medical care providers. In the event of any serious and emergency medical situations, the Group will promptly send its students to local hospitals for treatment. With respect to school safety, the Group promotes the security of its schools by employing its own security personnel.

As at the date of this report, the Group did not experience any serious accident, medical situation or safety issue involving its students.

Strategy

The Group intends to continue to grow its business and expand its school network. It intends to pursue suitable opportunities for acquisitions or investments primarily in the Yangtze River Delta to expand its school network and increase its market share in the private higher education sector. Also, it intends to continue to increase student enrollment at its existing schools by improving the school facilities and educational equipment. Furthermore, the Group intends to enhance its profitability by optimizing the pricing at its schools and increasing revenue sources. In addition, it intends to continue to promote its brand and raise its profile in the private education industry in China, particularly in the Yangtze River Delta region, and continue to attract and retain qualified teachers.

REPORT OF THE DIRECTORS

Revenue

For the year ended December 31, 2017, the Company has witnessed growth of the schools operated by the Group in terms of revenue. Revenue increased from RMB303.3 million for the year ended December 31, 2016 to RMB338.0 million for the year ended December 31, 2017. The Group typically charges students fees comprising tuition fees and boarding fees and tuition fees remained the major revenue, accounted for approximately 89% of the total revenue of the Company for the year ended December 31, 2017.

The following table sets forth the gross revenue generated by each of the schools and categories:

	Year ended December 31, 2017 RMB'000	Year ended December 31, 2016 RMB'000	Change RMB'000	Percentage change
Tuition fees				
Xinhua University	**271,849**	243,775	28,074	11.5%
Xinhua School	**29,034**	26,619	2,415	9.1%
Total tuition fees	**300,883**	270,394	30,489	11.3%
Boarding fees	**37,075**	32,868	4,207	12.8%

The increase of the total revenue of the Group was mainly due to the increase of the Group's student enrollment and average tuition fee.

The following table sets forth the average tuition fee and the average boarding fee for each of our schools for the periods indicated:

	Average tuition fee per student		**Average boarding fee per student**	
	Year ended December 31, 2017 RMB'000	Year ended December 31, 2016 RMB'000	**Year ended December 31, 2017 RMB'000**	Year ended December 31, 2016 RMB'000
Xinhua University	**11,995**	11,305	**1,429**	1,297
Xinhua School	**5,419**	4,244	**875**	781
Total	**10,737**	9,714	**1,323**	1,181

Note:

The average tuition fee per student and the average boarding fee per student are calculated by dividing the revenue generated from tuition fees and boarding fees, respectively, of all students, including both full time students and students in the continuing education program of Xinhua University, for the periods indicated by the number of our full time students enrolled as of the end of such period.

Student Enrollment

The following table sets forth information relating to the Group's full time student enrollment, capacity and school utilization rate for its schools for the periods indicated:

School Year	Xinhua University			Xinhua School[2]			Group		
	Full time student Enrollment	Student Capacity	School Utilization Rate	Full time student Enrollment[3]	Student Capacity	School Utilization Rate	Full time student Enrollment	Student Capacity	School Utilization Rate
2016-2017	21,564	23,988	89.9%	6,272	4,902	86.1%	27,836	28,890	89.2%
2017-2018	22,664	27,056	83.8%	5,358	4,446	89.1%	28,030	31,502	84.5%

Note:

(1) For each of the periods listed above, a small number of students in the continuing education program at Xinhua University also lived on campus.

(2) During the school years 2016-2017 and 2017-2018, we only provided beds in dormitories to students enrolled in general secondary vocational program of Xinhua School during the first two school years and for the third school year these students generally left school for internships and did not board on campus. The utilization rates of Xinhua School are calculated after excluding the students who did not board on campus during the school years. For the 2016-2017 and 2017-2018 school years, the total numbers of students who lived on campus at Xinhua School were 4,219 and 3,961, respectively, resulting in utilization rates of approximately 86.1% and 89.1%, respectively, for the same school years.

(3) The full time student enrollments at Xinhua School decreased from 6,272 students for 2016-2017 school year to 5,358 students for 2017-2018 school year mainly due to our Group's strategic adjustment to increase the student enrollment and capacity of the undergraduate programs. See "Business – Our school – Student Enrollment and Capacity" in the Prospectus for details.

Future Development

The Group intends to pursue suitable opportunities for acquisitions or investments primarily in the Yangtze River Delta to expand its school network and increase its market share in the private higher education sector. In particular, the Group plans to focus on suitable opportunities to acquire or invest in undergraduate colleges that can grant bachelor's degrees, including private universities and independent colleges in provincial capitals. The Group intends to give priority to schools that offer specialized majors, including but not limited to medicine, nursing, safety technology and arts, which the Board believe will complement the current major offerings of Xinhua University, such as pharmacy and safety engineering, and help to diversify the major offerings to meet differentiated market demand. In addition, the Group will also consider acquiring entities that own educational assets or institutions in provincial capitals, municipalities under the direct administration of the central government and major cities with independent budgets. The Board believes these acquisitions and investments will allow the Group to expand its school network to capture market opportunities. The Group will also consider acquiring well-known private universities offering curriculums and programs that complement those of the Group's, which the Board believes will create business synergies with the Group's existing schools in terms of sharing resources and student recruitment as graduates of our Xinhua School may pursue further studies at the acquired schools.

REPORT OF THE DIRECTORS

The expansion plan requires a significant amount of capital. The value of the properties owned and occupied by the Group's schools as of December 31, 2017 was RMB1,800 million. Because the acquisition price of private higher education institutions would generally include the market price of the properties they own and occupy, which the Board believe is significant, if the Group aims to acquire one or more schools in the future as part of our expansion plan, the cash generated from operations would not be sufficient and additional funding would be required, including proceeds from the Global Offering and banking facilities.

When conducting the analysis regarding potential acquisition targets, the Group seeks to acquire undergraduate colleges primarily focusing on the following criteria: (i) with a total student enrollment of not more than 10,000; and (ii) located in Anhui Province or the Yangtze River Delta. The Directors are of the view that the Board will be able to identify suitable targets because according to Frost & Sullivan Report, as of December 31, 2016, the student enrollments of higher education institutions in the Yangtze River Delta represented approximately 16.7% of the total higher education student enrolment in the PRC and the number of higher education institutions in the Yangtze River Delta represented approximately 15.8% of the total number of higher education institutions in the PRC, while the total geographic area of the Yangtze River Delta only represented approximately 3.7% of that of the PRC. In 2016, there were 139 private higher education institutions in the Yangtze River Delta, including 80 private universities and 59 private junior colleges. Approximately 83.0% of these schools each had a total student enrollment of not more than 10,000. In the same year, there were 31 private higher education institutions in Anhui Province, including 15 private universities and 16 private junior colleges. Approximately 87.0% of these schools each had a total student enrollment of not more than 10,000. In line with the Group's expansion strategy, the Directors are of the view that these schools comprise a list of potential acquisition targets we would consider pursuing in the future. In addition, as the largest private higher education provider in the Yangtze River Delta, the Board believe that our reputation, investment capabilities, as well as our extensive operating experience in the private higher education industry give us competitive advantages in bidding for suitable targets. Where appropriate, the Board will also consider raising bank financing and utilizing cash flow from operations to support the acquisition activities. As of the date of this report, the Group had entered into an agreement with Anhui Medical University in connection with the establishment of a new campus under the School of Clinical Medicine. The Board expect that approximately RMB720.0 million of internally generated funds are required for the funding needs of the new campus. Other than that, the Board have not identified any specific targets as of the date of this report. The Board intends to apply the above-mentioned criteria to identify potential suitable acquisition targets.

Following completion of such acquisitions, the Group plans to leverage its successful operational experience and educational expertise to optimize the operations of the acquired school. In particular, the Group intends to integrate the newly acquired schools into its school network and implement centralized management to achieve higher overall operating efficiency. To achieve this goal, the Group intends to enhance inter-school cooperation and resource sharing between our existing schools and acquired schools. In particular, the Group expects to be able to share internship and employment information among its schools in order to provide students with more options and opportunities for practical experience and employment. In addition, the Group plans to conduct student recruitment for its existing schools and acquired schools within its school network, and the Group can promote its brand and raise the profile of the Group as a whole through the Group's websites and other centralized marketing efforts. Moreover, with the expansion, the Group intends to implement a centralized administrative system among its schools to facilitate curriculum sharing and tuition payment for the students and to manage procurement of teaching materials, construction and maintenance of school facilities as well as other logistics support for schools under our network. Through such centralized administrative system, the Group expects to further improve our management and enhance its operational efficiency. The Directors believe that the schools have sufficient talent reserve, including a number of experienced senior management as well as teachers and administrative staff who are able to help the schools improve the management and teaching capabilities of the new schools within a short period. Moreover, the Group believe that its wide ranging and diversified major offerings and extensive experience in curriculum design will enable the Group to efficiently expand the disciplines covered by new schools and effectively enhance their education quality. With respect to graduate employment, the Group will share its employment information and resources with all schools under our network. The Board believes the Group's close relationships with various enterprise partners and its diversified school-enterprise collaboration programs will significantly benefit the newly acquired schools. The Board believes that with the integration of these resources, the acquisitions will complement the Group's existing business and give rise to further business synergies through economies of scale including shared management, procurement, and other operational resources, as well as the Group's brand value. After integrating the newly acquired schools into the school network, the Board believes the Group's enhanced market position and profile as well as more diversified curriculums and major offerings, such as medicine, pharmacy, nursing and safety technology, will enable it to attract more students while maintaining consistent educational quality.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last four financial years are set out on page 3 "Financial Highlights" of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the Listing (after deducting underwriting fee and relevant expenses) amounted to approximately HK$1239.8 million. As of December 31, 2017, none of the proceeds had been utilised. Such amounts are proposed to be used according to the allocation set out in the Prospectus.

MAJOR CUSTOMERS AND SUPPLIERS

The customers primarily consist of our students. The Group did not have any single customer who accounted for more than 5% of our revenue for each of the years ended December 31, 2017.

The Group's suppliers primarily consist of construction companies, textbook suppliers and utility suppliers. For the years ended December 31, 2017, purchases from the Group's five largest suppliers amounted to RMB40.1 million (2016: RMB36.3 million), accounting for 35.9% (2016: 37.1%) of the total purchases for the Reporting Period. For the same period, purchases from the Group's largest supplier amounted to RMB12.8 million (2016: RMB15.5 million), accounting for 11.5% (2016: 15.9%), of the total purchases for the relevant periods. None of the Directors, their respective close associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of our issued capital, had any interest in any of the Group's five largest suppliers as of the date of this report.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with employees, suppliers and customers. During the Reporting Period, there were no material and significant dispute between the Group and its employees, suppliers and/or customers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2017 are set out in note 11 to the consolidated financial statements.

By comparing the valuation of the property interest of the Group as set out in Appendix IV to the Prospectus, the valuation surplus is approximately RMB1,285,194,000 as compared to the carrying amounts of the Group's property interests as of December 31, 2017. The valuation surplus of the property interests had not be incorporated in the Group's consolidated financial statements for the Reporting Period. If the valuation surplus were to be included in the consolidated financial statements, an additional annual depreciation charge of approximately RMB36,972,810 would be incurred.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended December 31, 2017 are set out in the consolidated statement of changes in equity on page 83 of this annual report and note 23 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2017, the Company's reserve available for distribution was Nil.

BANK LOANS AND OTHER BORROWINGS

The Group did not have any bank loans as at December 31, 2017. Particulars of loans to related parties as at December 31, 2016 are set out in note 26 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the Reporting Period and up to the date of this annual report are:

Non-executive Director:
Mr. Wu Junbao *(Chairman of the Board)*

Executive Directors:
Mr. Lu Zhen
Mr. Wang Yongkai
Ms. Wang Li

Independent Non-executive Directors:
Ms. Zhang Kejun
Mr. Yang Zhanjun
Mr. Chau Kwok Keung

In accordance with article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting and shall then be eligible for re-election. Accordingly, Mr. Wu Junbao, Ms. Wang Li and Ms. Zhang Kejun shall retire by rotation, and being eligible, have offered themselves for re-election at the forthcoming annual general meeting to be held in due course (the "AGM").

Details of the Directors to be re-elected at the AGM are set out in the circular will be sent to the Company's Shareholders in due course.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 19 to 26 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors and the Company considers such Directors to be independent throughout the year ended December 31, 2017 and remain so as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of the non-executive Director and independent non-executive Directors has entered into a service contract with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Save as disclosed above, none of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CONTROLLING SHAREHOLDERS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, no Director or its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended December 31, 2017 and up to the date of this annual report.

Apart from the contract relating to the reorganization of the Group in relation to the Listing and save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, none of the Controlling Shareholder or any of its connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended December 31, 2017 and up to the date of this annual report.

No contract of significance for the provision of services to the Company or any of its subsidiaries or fellow subsidiaries by the Controlling Shareholder of the Company or any of its subsidiaries was entered into during the year ended December 31, 2017 and up to the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2017 and up to the date of this annual report.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Group, having regard to the Group's operating results, individual performance of the Directors and senior management and comparable market practices.

The Directors and senior management may also receive options to be granted under the Share Option Scheme. For further details of the Share Option Scheme, please refer to page VI-21 of the Prospectus "Share Option Scheme".

Details of the remuneration of the Directors, and five highest paid individuals during the Reporting Period are set out in notes 8 and 9 to the consolidated financial statements.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 6 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As the Company had not been listed on the Stock Exchange on December 31, 2017, during the year ended December 31, 2017, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO") and Section 352 of the SFO did not apply to the Directors, and chief executives of the Company.

As at the Listing Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name	Capacity/nature of Interest	Number of shares	Long/short position	Approximate Percentage of Shareholding in the Company as at the Listing Date (%)
Mr. Wu Junbao	interest in a controlled corporation	1,148,491,879	Long position	71.78

Note:

(1) Mr. Wu is the sole shareholder of WJB Company and he is therefore deemed to be interested in the Shares held by WJB Company upon the Listing.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As the Company had not been listed on the Stock Exchange on December 31, 2017, during the year ended December 31, 2017, Divisions 2 and 3 of Part XV of the SFO and Section 336 of the SFO did not apply to the Company.

As at the Listing Date, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of interest	Number of shares	Long/short position	Approximate percentage of shareholding in the Company as at the Listing Date (%)
Wu Junbao Company	Beneficial owner	1,148,491,879	Long position	71.78
Mr. Wu Junbao	Interest in a controlled corporation	1,148,491,879	Long position	71.78

Note:

(1) Mr. Wu is the sole shareholder of WJB Company and he is therefore deemed to be interested in the Shares held by WJB Company upon the Listing.

Save as disclosed above, as at the Listing Date, the Directors and the chief executive of the Company were not aware of any persons (who were not Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on March 8, 2018 ("Adoption Date") for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Eligible persons include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("Executive"), any proposed employee, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("Employee"); (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (f) above.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, which is 40,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the over-allotment option granted by the Company, representing approximately 10% of the issued shares as at the Listing Date.

No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders in general meeting with such eligible person and his close associates (or his associates if such eligible person is a connected person) abstaining from voting.

The Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an option to any eligible person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof). Subject to such terms and conditions as the Board may determine (including such terms and conditions in relation to their vesting, exercise or otherwise), there is no minimum period for which an option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

An offer of the grant of an option shall remain open for acceptance by the eligible person concerned for a period of 28 days from the offer date provided that no such grant of an option may be accepted after the expiry of the effective period of the Share Option Scheme. An option shall be deemed to have been granted and accepted by the eligible person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the option duly signed by the grantee together with a remittance in favor of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an option must be accepted by the relevant eligible person, being a date no later than 28 days after the offer date.

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a Share; (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The remaining life of the Share Option Scheme is around 9 years and 11 months.

During the year ended December 31, 2017, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" of this annual report and in the Prospectus, during the year ended December 31, 2017 and up to the date of this annual report, neither the Company nor any of its subsidiaries had entered into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to the date of this annual report, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands that would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

NON-COMPETITION UNDERTAKING

Although the Controlling Shareholders have control of formal middle school and informal education businesses that are not included in the Group, the Controlling Shareholders believe that their interests in such businesses will not, directly or indirectly, compete with the Group's business because there is a clear delineation of businesses of the Group and the Controlling Shareholders.

The Controlling Shareholders have entered into the Deed of Non-competition on March 8, 2018 in favour of the Company, pursuant to which the Controlling Shareholders have jointly and severally and irrevocably undertaken with the Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of our Group) would not, during the restricted period, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, company (enterprise or corporate entity), partnership or associate (whether of an economic nature), among other things, carry on, participate or be interested or engaged in or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time.

As of the date of this annual report, the Controlling Shareholders do not have any other interest in any business that may, directly or indirectly, compete with the business of the Group.

REPORT OF THE DIRECTORS

Under the Structured Contracts, Mr. Wu Junbao has provided certain non-competition undertaking in favor of the Company. For details of the Non-Competition Undertaking, please refer to the Prospectus.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Non-Competition Undertaking during the Reporting Period for disclosure in this annual report.

The independent non-executive Directors have reviewed the compliance with the Non-Competition Undertaking during the Reporting Period based on the information and confirmation provided by or obtained from the Controlling Shareholders, and were satisfied that the Controlling Shareholders have duly complied with the Non-Competition Undertaking.

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, during the period from the Listing Date and up to the date of this annual report, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As the Company had not been listed on the Stock Exchange as at December 31, 2017, during the year ended December 31, 2017, the provisions relating to disclosure of connected transactions under Chapter 14A of the Listing Rules were not applicable to the Company.

As of the date of this annual report, the Group has entered into the following continuing connected transactions pursuant to Chapter 14A of the Listing Rule:

(1) Service Agreements

Pursuant to the service agreements (the "Service Agreements") dated March 8, 2018 entered into by Xinhua University with each of Anhui New East Cuisine Education Institute (安徽新東方烹飪專修學院) and Anhui Xinhua Computer Institute (安徽新華電腦專修學院) (the "Relevant Institutes"), each of the Relevant Institutes have agreed to assist Xinhua University in promoting its adult higher education program to students of the Relevant Institutes. In connection with such promotional effort, for those students who enrolled in the Group's adult higher education program (the "Relevant Students"), each of the Relevant Institutes have also agreed to provide convenient teaching locations for the Relevant Students to attend some of the classes for such program. In consideration of the foregoing services, Xinhua University shall pay to the Relevant Institutes a service fee equivalent to 50% of the tuition fees of the Relevant Students. The Service Agreements are for a term with effect from the Listing Date to December 31, 2020, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to expiry of the Service Agreements (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions).

The Directors are of the view that the transactions contemplated under the Service Agreements are on normal commercial terms or terms more favorable to the Group.

(2) Structured Contracts II

A. Overview

The Group currently conducts the private higher education business through the PRC Operating Schools in the PRC as PRC laws and regulations generally restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners. The Group does not hold any equity interest in the PRC Operating Schools. The Structured Contracts, through which the Group obtains control over and derive the economic benefits from the PRC Operating Schools, have been narrowly tailored to achieve the business purpose and minimize the potential conflict with relevant PRC laws and regulations. The Group had entered into the Structured Contracts for the existing PRC Operating Schools and expect to enter into structured contracts for the schools to be newly established or invested in, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

In order to comply with the PRC laws and regulations as set out above while availing ourselves of international capital markets and maintaining effective control over all of the operations, on October 31, 2017, the wholly-owned subsidiary, Xinhua Anhui, entered into various agreements that constitute the Structured Contracts I with, among others, the PRC Operating Schools and the School Sponsor, under which all economic benefits arising from the business of the PRC Operating Schools and the School Sponsor are transferred to Xinhua Anhui to the extent permitted under the PRC laws and regulations by means of service fees payable by the PRC Operating Schools and the School Sponsor to Xinhua Anhui.

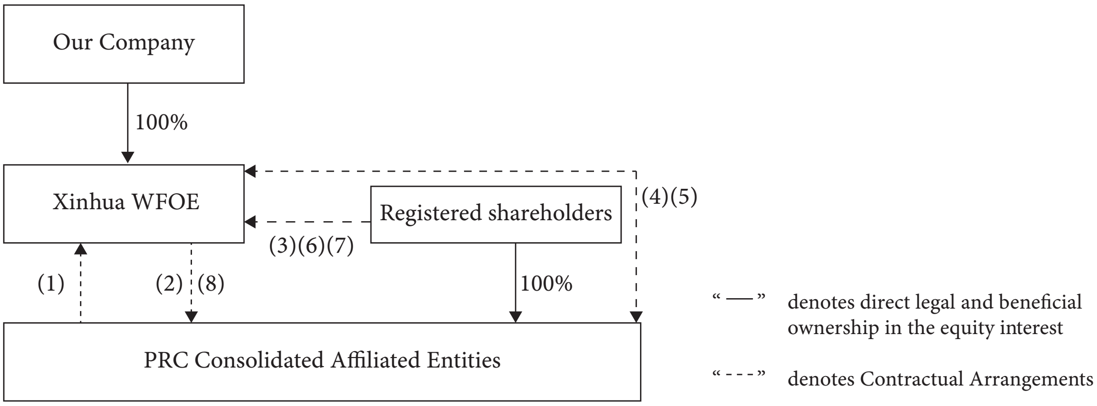
Pursuant to relevant local government tax policy in Khorgos, Xinjiang, an enterprise established in Khorgos between January 1, 2010 and December 31, 2020 and falling within the scope of the Catalog of Enterprise Income Tax Incentives for Industries Particularly Encouraged by Poverty Areas of Xinjiang for Development (新疆困難地區重點鼓勵發展產業企業所得税優惠目錄) is exempted from enterprise income tax entirely for five years beginning from the first year in which revenue from its principal business is earned and, after this initial period, such enterprise is entitled to another exemption on the local portion of its enterprise income tax. In light of this preferential tax policy, on January 17, 2018, Xinhua Xinjiang was established in Khorgos, Xinjiang, the PRC as a wholly foreign owned enterprise and was wholly owned by Xinhua HK. Xinhua Xinjiang is engaged in the provision of technical and management consultancy services to our PRC Operating Schools and School Sponsor and therefore falls within the scope of the aforesaid catalog. On February 7, 2018, Xinhua Xinjiang made a filing with the relevant local tax authorities in Khorgos for the preferential tax treatments, pursuant to which Xinhua Xinjiang is fully exempted from enterprise income tax from January 1, 2018 to December 31, 2020. See "Financial Information – Description of Major Components of The Combined Statements of Profit or Loss – Income Tax Expenses" in the Prospectus for details.

On February 6, 2018, Xinhua Xinjiang entered into the Structured Contracts II, the terms and conditions of which are the same as those contained in the Structured Contracts I in all material aspects, pursuant to which the Structured Contracts I were automatically terminated and all economic benefits arising from the business of the PRC Consolidated Affiliated Entities are transferred to Xinhua Xinjiang by means of services fees payable by the PRC Consolidated Affiliated Entities to Xinhua Xinjiang.

Although the Registered Shareholders are not consolidated as part of the Group, they are parties to certain agreements which constitute the Structured Contracts to ensure that the Registered shareholders' rights as shareholders of Xinhua Group are actually controlled by Xinhua WFOE.

REPORT OF THE DIRECTORS

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Schools and/or the School Sponsor to the Group stipulated under the Structured Contracts:



Notes:

1. Payment of service fees. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (2) Exclusive Technical Service and Management Consultancy Agreement" in the Prospectus for details.

2. Provision of exclusive technical and management consultancy services. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (2) Exclusive Technical Service and Management Consultancy Agreement" in the Prospectus for details.

3. Exclusive call option to acquire all or part of the School Sponsor's interest in the PRC Operating Schools and all or part equity interest in the School Sponsor. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (3) Exclusive Call Option Agreement" in the Prospectus for details.

4. Entrustment of school sponsor' rights in the PRC Operating Schools by Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (5) School Sponsor's Powers of Attorney" in the Prospectus for details.

5. Entrustment of directors' rights in the PRC Operating Schools by directors of the PRC Operating Schools including Directors' Powers of Attorney. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (6) Directors' Powers of Attorney" in the Prospectus for details.

6. Entrust of Shareholders' right including Shareholders' power of attorney. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (7) Shareholders' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (8) Shareholders' Powers of Attorney" in the Prospectus for details.

7. Pledge of equity interest by the Registered Shareholders of their equity interest in Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (10) Equity Pledge Agreement" in the Prospectus for details.

8. Provision of loans by Xinhua WFOE to Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (11) Loan Agreement" in the Prospectus for further details.

9. According to PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as "school sponsors" instead of "owners" or "shareholders." See "Regulatory Overview" in the Prospectus for further details.

Xinhua Group, or the School Sponsor, is a holding company to hold the school sponsor interests in the PRC Operating Schools and it is not engaged in any other business. Under the Structured Contracts, each of the PRC Consolidated Affiliated Entities entered into the Exclusive Technical Service and Management Consultancy Agreement and Loan Agreement with, among others, Xinhua WFOE, pursuant to which each of the School Sponsor and the PRC Operating Schools will be directly bound by and subject to the terms and conditions thereof. Accordingly, for any services provided by Xinhua WFOE to any of the School Sponsor and the PRC Operating Schools, the respective service fee will be paid by such School Sponsor and/or PRC Operating Schools to Xinhua WFOE directly.

In addition, in order to prevent the leakage of assets and values of the PRC Consolidated Affiliated Entities, the Registered Shareholders and the PRC Consolidated Affiliated Entities have undertaken that, without the prior written consent of Xinhua WFOE or its designated party, the PRC Operating Schools shall not, among others, distribute dividends or other payments to the School Sponsor, or the Registered Shareholders.

B. Summary of the Material Terms of the Structured Contracts I

(1) Business Cooperation Agreement

Pursuant to the Business Cooperation Agreement, Xinhua Anhui shall provide technical services, management support and consulting services necessary for the private education business, and in return, the PRC Operating Schools and the School Sponsor shall make payments accordingly.

To ensure the due performance of the Structured Contracts, each of the PRC Operating Schools and the School Sponsor agreed to comply, and procure any of its subsidiaries to comply with, and the Registered Shareholders agreed to procure the PRC Operating Schools and the School Sponsor to comply with the obligations as prescribed under the Business Cooperation Agreement.

In order to prevent the leakage of assets and values of the PRC Consolidated Affiliated Entities, the Group has obtained undertakings from the Registered Shareholders, the School Sponsor and each of the PRC Operating Schools that, without the prior written consent of Xinhua Anhui or its designated party, the Registered Shareholders, the School Sponsor or the PRC Operating Schools shall not conduct or cause to conduct any activity or transaction which may have any actual impact (i) on the assets, business, staff, obligations, rights or operations of the PRC Operating Schools and/or the School Sponsor or (ii) on the ability of the School Sponsor, the Registered Shareholders and each of the PRC Operating Schools to perform the obligations under the Structured Contracts I.

Furthermore, each of Registered Shareholders undertakes to Xinhua Anhui that, unless with the prior written consent of Xinhua Anhui, the Registered Shareholders (severally or jointly) shall not (i) directly or indirectly engage, participate in, conduct, acquire or hold any business or activities which compete or may potentially compete with any of the PRC Operating Schools and/or the School Sponsor and its subsidiaries ("Competing Business"), (ii) use information obtained from any of the PRC Operating Schools and/or the School Sponsor or its subsidiaries for the Competing Business, and (iii) obtain any benefit from any Competing Business. Each of the Registered Shareholders further consents and agrees that, in the event that the Registered Shareholders (severally or jointly) directly or indirectly engage, participate in or conduct any Competing Business, Xinhua Anhui and/or other entities as designated by us shall be granted an option to require the entity engaging in the Competing Business to enter into an arrangement similar to that of the Structured Contracts I. If Xinhua Anhui does not exercise such option, the Registered Shareholders shall cease the operation of the Competing Business within a reasonable time.

(2) *Exclusive Technical Service and Management Consultancy Agreement*

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, Xinhua Anhui agreed to provide exclusive technical services to the PRC Operating Schools and the School Sponsor, including but not limited to, (a) design, development, update and maintenance of software for computer and mobile devices; (b) design, development, update and maintenance of webpages and websites necessary for the education activities of the PRC Operating Schools and the School Sponsor; (c) design, development, update and maintenance of management information systems necessary for the education activities of the PRC Operating Schools and the School Sponsor; (d) provision of other technical support necessary for the education activities of the PRC Operating Schools and the School Sponsor; (e) provision of technical consulting services; (f) provision of technical training; (g) engaging technical staff to provide on-site technical support; and (h) providing other technical services reasonably requested by the PRC Operating Schools and the School Sponsor.

Furthermore, Xinhua Anhui agreed to provide exclusive management consultancy services to the PRC Operating Schools and the School Sponsor, including but not limited to, (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimization on annual budget; (h) advising on design of internal structures and internal management; (i) provision of management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) building of marketing network; and (m) providing other management technical services reasonably requested by the PRC Operating Schools and the School Sponsor.

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, unless otherwise prescribed under the PRC laws and regulations, Xinhua Anhui shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by Xinhua Anhui to the PRC Operating Schools and the School Sponsor, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreement and/or any other agreements entered into between Xinhua Anhui and the PRC Consolidated Affiliated Entities.

(3) *Exclusive Call Option Agreement*

Under the Exclusive Call Option Agreement, the Registered Shareholders have irrevocably granted Xinhua Anhui or its designated purchaser the right to purchase all or part of the school sponsor's interest of the School Sponsor in the PRC Operating Schools and all or part of equity interest in the School Sponsor ("Equity Call Option"). The purchase price payable by Xinhua Anhui in respect of the transfer of such school sponsor's interest or equity interest upon exercise of the Equity Call Option shall be the lowest price permitted under the PRC laws and regulations. Xinhua Anhui or its designated purchaser shall have the right to purchase such proportion of the school sponsor's interest of the PRC Operating Schools and/or equity interest in the School Sponsor as it decides at any time.

In the event that PRC laws and regulations allow Xinhua Anhui or us to directly hold all or part of the school sponsor interest in the PRC Operating Schools and/or all or part of the equity interest in the School Sponsor and operate private education business in the PRC, Xinhua Anhui shall issue the notice of exercise of the Equity Call Option as soon as practicable, and the percentage of school sponsor's interest and/or equity interest purchased upon exercise of the Equity Call Option shall not be lower than the maximum percentage then allowed to be held by Xinhua Anhui or us under PRC laws and regulations.

(4) *School Sponsor's and Directors' Rights Entrustment Agreement*

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, Xinhua Group has irrevocably authorized and entrusted Xinhua Anhui to exercise all its rights as school sponsor of each of the PRC Operating Schools to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors or council members of the schools; (b) the right to appoint and/or elect supervisors of the schools; (c) the right to understand the operation and financial situation of the schools; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the schools; (e) the right to obtain reasonable returns as school sponsor of the schools in accordance with the laws and the articles of association of each school; (f) the right to acquire residue assets upon liquidation of the schools in accordance with the laws and the articles of association of each school; (g) the right to transfer school sponsor's interest in accordance with the laws; (h) the right to choose for the school to be a for-profit school or non-profit school pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time; and (i) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time.

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, each of the directors/council members appointed by the School Sponsor in the PRC Operating Schools (the "Appointees") has irrevocably authorized and entrusted Xinhua Anhui to exercise all his/her rights as directors/council members of the PRC Operating Schools and to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representative of the directors appointed by the School Sponsor; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of each of the PRC Operating Schools; (c) the right to propose to convene interim board meetings of each of the PRC Operating Schools; (d) the right to sign all board minutes, board resolutions and other legal documents which the directors appointed by Xinhua Group have authority to sign in his/her capacity as directors of the PRC Operating Schools; (e) the right to instruct the legal representative and financial and business responsible persons of the PRC Operating Schools to act in accordance with the instruction of Xinhua Anhui; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of the PRC Operating Schools; (g) the right to handle the legal procedures of registration, approval and licensing of the PRC Operating Schools at the education department, the department of civil affairs or other government regulatory departments; and (h) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of the PRC Operating Schools as amended from time to time.

In addition, each of Xinhua Group and the Appointees has irrevocably agreed that (i) Xinhua Anhui may delegate its rights under the School Sponsor's and Directors' Rights Entrustment Agreement to the directors of Xinhua Anhui or its designated person, without prior notice to or approval by Xinhua Group and the Appointees; and (ii) any person as successor of civil rights of Xinhua Anhui or liquidator by reason of subdivision, merger, liquidation of Xinhua Anhui or other circumstances shall have authority to replace Xinhua Anhui to exercise all rights under the School Sponsor's and Directors' Rights Entrustment Agreement.

(5) *School Sponsor's Powers of Attorney*

Pursuant to the School Sponsor's Powers of Attorney executed by the School Sponsor in favor of Xinhua Anhui, the School Sponsor authorized and appointed Xinhua Anhui, the director of which is Ms. Fei Yun (費雲) (who is not a director of any of the School Sponsor and PRC Operating Schools and therefore does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of the PRC Operating Schools. For details of the rights granted, see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

Xinhua Anhui shall have the right to further delegate the rights so delegated to the directors of Xinhua Anhui or other designated person. The School Sponsor irrevocably agreed that the authorization appointment in the School Sponsor's Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of the School Sponsor's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsor's Power of Attorney shall constitute a part and incorporate terms of the School Sponsor's and Directors' Rights Entrustment Agreement.

(6) *Directors' Powers of Attorney*

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of Xinhua Anhui, each of the Appointees authorized and appointed Xinhua Anhui, the sole director of which is Ms. Fei Yun (費雲) (who is not a director of any of the School Sponsor and/or PRC Operating Schools and therefore does not give rise to any conflicts of interest), as his/her agent to act on his/her behalf to exercise or delegate the exercise of all of his/her rights as directors/council members of the PRC Operating Schools.

Xinhua Anhui shall have the right to further delegate the rights so delegated to the directors of Xinhua Anhui or other designated person. Each of the Appointees irrevocably agreed that the authorization appointment in the Directors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her loss of or restriction on capacity, death or other similar events. The Directors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsor's and Directors' Rights Entrustment Agreement.

(7) *Shareholders' Rights Entrustment Agreement*

Pursuant to the Shareholders' Rights Entrustment Agreement, each of the Registered Shareholders has irrevocably authorized and entrusted Xinhua Anhui to exercise all of his/its respective rights as shareholders of Xinhua Group to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to attend shareholders' meetings of Xinhua Group, as the case may be; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the shareholders' meeting of Xinhua Group, as the case may be; (c) the right to appoint directors or legal representative of Xinhua Group, as the case may be; (d) the right to propose to convene interim shareholders' meetings of Xinhua Group, as the case may be; (e) the right to sign all shareholders' resolutions and other legal documents which the Registered Shareholders have authority to sign in its capacity as shareholders of Xinhua Group, as the case may be; (f)the right to instruct the directors and legal representative of Xinhua Group, as the case may be to act in accordance with the instruction of Xinhua Anhui; (g) the right to exercise all other rights and voting rights of shareholders as prescribed under the articles of association of Xinhua Group, as the case may be; (h) the right to handle the legal procedures of registration, approval and licensing of Xinhua Group, as the case may be at the education department, the department of civil affairs or other government regulatory departments; and (i) other shareholders' rights pursuant to applicable PRC laws and regulations and the articles of association of the PRC Operating Schools as amended from time to time.

In addition, each of the Registered Shareholders has irrevocably agreed that (i) Xinhua Anhui may delegate its rights under the Shareholders' Rights Entrustment Agreement to the directors of Xinhua Anhui or its designated person, without prior notice to or approval by the Registered Shareholders; and (ii) any person as successor of civil rights of Xinhua Anhui or liquidator by reason of subdivision, merger, liquidation of Xinhua Anhui or other circumstances shall have authority to replace Xinhua Anhui to exercise all rights under the Shareholders' Rights Entrustment Agreement.

(8) Shareholders' Powers of Attorney

Pursuant to the Shareholders' Powers of Attorney executed by each of the Registered Shareholders in favor of Xinhua Anhui, each of the Registered Shareholders authorized and appointed Xinhua Anhui, as his or their agent to act on his or their behalf to exercise or delegate the exercise of all his or their rights as shareholders of the Xinhua Group. For details of the rights granted, see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (7) Shareholders' Rights Entrustment Agreement" in the Prospectus.

Xinhua Anhui shall have the right to further delegate the rights so delegated to its directors or other designated person. Each of the Registered Shareholders irrevocably agreed that the authorization appointment in the Shareholders' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her loss of or restriction on capacity, death or other similar events. The Shareholders' Power of Attorney shall constitute a part and incorporate terms of the Shareholders' Rights Entrustment Agreement.

(9) Spouse Undertakings

Pursuant to the Spouse Undertakings, the respective spouse of the Registered Shareholders has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts I by the respective Registered Shareholders, and in particular, the arrangement as set out in the Structured Contracts I in relation to the restrictions imposed on the direct or indirect equity interest in Xinhua Group, pledge or transfer the direct or indirect equity interest in Xinhua Group, or the disposal of the direct or indirect equity interest in Xinhua Group in any other forms;

(b) the spouse has not participated, is not participating and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to the School Sponsor and the PRC Operating Schools;

(c) the spouse authorizes the respective Registered Shareholders or his authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's equity interest in Xinhua Group (direct or indirect) in order to safeguard the interest of Xinhua Anhui under the Structured Contracts I and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

(d) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by any increase, decrease, consolidation or other similar events relating to the direct or indirect equity interest in Xinhua Group;

(e) any undertaking, confirmation, consent and authorization under the Spouse Undertakings shall not be revoked, prejudiced, invalidated or otherwise adversely affected by death, loss of or restriction on capacity of the spouse, divorce or other similar events; and

(f) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Xinhua Anhui and the spouses of the respective Registered Shareholders in writing.

The Spouse Undertakings shall have the same term as and incorporate the terms of the Business Cooperation Agreement.

(10) Equity Pledge Agreement

Pursuant to the Equity Pledge Agreement, each of the Registered Shareholders unconditionally and irrevocably pledged and granted first priority security interests over all of his/its equity interest in Xinhua Group together with all related rights thereto to Xinhua Anhui as security for performance of the Structured Contracts I and all direct, indirect or consequential damages and foreseeable loss of interest incurred by Xinhua Anhui as a result of any event of default on the part of the Registered Shareholders, the School Sponsor or each of the PRC Operating Schools and all expenses incurred by Xinhua Anhui as a result of enforcement of the obligations of the Registered Shareholders, the School Sponsor and/or each of the PRC Operating Schools under the Structured Contracts I (the "Secured Indebtedness").

Pursuant to the Equity Pledge Agreement, without the prior written consent of Xinhua Anhui, the Registered Shareholders shall not transfer the equity interest or create further pledge or encumbrance over the pledged equity interest. Any unauthorized transfer shall be invalid, and the proceeds of any transfer of the equity interest shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by Xinhua Anhui. The Registered Shareholders also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the Equity Pledge Agreement.

Any of the following events shall constitute an event of default under the Equity Pledge Agreement:

(a) any of the Registered Shareholders, the School Sponsor or the PRC Operating Schools commits any breach of any obligations under the Structured Contracts I;

(b) any representations or warranties or information provided by any of the Registered Shareholders, the School Sponsor or the PRC Operating Schools under the Structured Contracts I is proved incorrect or misleading; or

(c) any provision in the Structured Contracts I becomes invalid or incapable of performance due to changes in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, Xinhua Anhui shall have the right to enforce the Equity Pledge Agreement by written notice to the Registered Shareholders in one or more of the following ways:

(a) to the extent permitted under PRC laws and regulations, Xinhua Anhui may request the Registered Shareholders to transfer all or part of his or her or its equity interest in the School Sponsor to any entity or individual designated by Xinhua Anhui at the lowest consideration permissible under the PRC laws and regulations;

(b) sell the pledged equity interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds;

(c) dispose of the pledged equity interest in other manner subject to applicable laws and regulations.

Under the Structured Contracts I, there is no equity pledge arrangement between Xinhua Anhui and the School Sponsor over the school sponsor's interest in the PRC Operating Schools held by the School Sponsor. As advised by the PRC legal advisors, if the Group is to make an equity pledge arrangement with the School Sponsor where the School Sponsor pledges its school sponsor's interest in each of the PRC Operating Schools in favor of us, such arrangement would be unenforceable under PRC laws and regulations given that school sponsor's interests in schools are not pledgeable under PRC laws and any equity pledge arrangements with respect to the School Sponsor's interests in schools cannot be registered with the relevant PRC regulatory authorities.

Nevertheless, the Group has implemented various measures which shall remain in place before the Structured Contracts I being unwound, with the aim of further enhancing the control over the PRC Operating Schools and the School Sponsor, in particular:

(a) as disclosed above, pursuant to the Business Cooperation Agreement, the School Sponsor, the Registered Shareholders and each of the PRC Operating Schools have undertaken that, without prior written consent of Xinhua Anhui or its designated party, he/it shall not conduct or cause to conduct any activity or transaction which may have an actual impact (i) on the assets, business, staff, obligations, rights or operations of the PRC Operating Schools and/or the School Sponsor or (ii) on the ability of School Sponsor, the Registered Shareholders and each of the PRC Operating Schools to perform the obligations under the Structured Contracts I. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (1) Business Cooperation Agreement" in the Prospectus for details.

(b) as disclosed above, pursuant to the Exclusive Call Option Agreement, the Registered Shareholders have further undertaken to Xinhua Anhui that, among others, each of them shall not sell, assign, transfer or otherwise dispose of or create any encumbrance over school sponsor's interest in any of the PRC Operating Schools and/or equity interest in the School Sponsor without prior written consent of Xinhua Anhui. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (3) Exclusive Call Option Agreement" in the Prospectus for details.

(c) the Company has taken measures to ensure that the company seals of the PRC Operating Schools and the School Sponsor are properly secured, are within the full control of the Company and cannot be used by the School Sponsor or the Registered Shareholders or the PRC Operating Schools without the permission. Such measures include arranging for the company seals of the PRC Operating Schools and the School Sponsor to be kept in the safe custody of the finance department of Xinhua Anhui and setting up lines of authority for using the company seals, financial chops and business registration certificates such that the company seals, financial chops and business registration certificates can only be used under direct authorization of the Company or Xinhua Anhui.

(11) Loan Agreement

Pursuant to the Loan Agreement, Xinhua Anhui agreed to provide interest-free loans to Xinhua Group in accordance with the PRC laws and regulations and Xinhua Group agreed to utilize the proceeds of such loans to contribute as capital of the PRC Operating Schools in its capacity as school sponsor of the schools in accordance with the instructions. Both parties agree that all such capital contribution will be directly settled by Xinhua Anhui on behalf of Xinhua Group.

The terms of the Loan Agreement shall continue until all interest of the PRC Operating Schools and the School Sponsor are transferred to Xinhua Anhui or other parties designated by the Company.

Each loan to be granted under the Loan Agreement will be for an infinite term until termination at the sole discretion of Xinhua Anhui. The loan will become due and payable upon Xinhua Anhui's demand under any of the following circumstances: (i) a bankruptcy application, bankruptcy reorganization or bankruptcy settlement has been filed by or against Xinhua Group, (ii) a winding-up or liquidation application has been filed by or against Xinhua Group, (iii) Xinhua Group becoming insolvent or incurring any other significant personal debt which may affect its ability to repay the loan under the Loan Agreement, (iv) Xinhua Anhui or its designee exercising in full its option to purchase all school sponsor's interests to the extent permitted by PRC laws and regulations, or (v) any of Xinhua Group or the PRC Operating Schools commits any breach of any obligations under the Structured Contracts I, or any warranties provided by any of Xinhua Group or the PRC Operating Schools under the Structured Contracts I is proved incorrect or inaccurate. As advised by the PRC legal advisors, interest-free loans granted by Xinhua Anhui to Xinhua Group is not in violation of the applicable PRC laws and regulations.

C. Structured Contracts I and Structured Contracts II

Other than the Spouse Undertakings, each of the specific agreements that comprise the Structured Contracts I contains clauses which provide that, to the extent permitted by the PRC laws, Xinhua Anhui shall have the right to designate other entities agreed by the Company (including any wholly foreign-owned enterprise to be established by us from time to time) to enter into and perform the agreements which are on the same terms and conditions as the Structured Contracts I (excluding the Spouse Undertakings) with the other parties to the Structured Contracts I (excluding the Spouse Undertakings), and the other parties to the Structured Contracts I shall unconditionally procure the signing and performance of such agreements. The Structured Contracts I shall be automatically terminated on the date on which the aforementioned agreements are entered into and become effective.

In light of the preferential tax policy in Xinjiang, on February 6, 2018, Xinhua Xinjiang entered into the Structured Contracts II, the terms and conditions of which are the same as those contained in the Structured Contracts I in all material aspects, pursuant to which the Structured Contracts I were automatically terminated and all economic benefits arising from the business of the PRC Consolidated Affiliated Entities are transferred to Xinhua Xinjiang by means of services fees payable by the PRC Consolidated Affiliated Entities to Xinhua Xinjiang.

D. Business Activities of the PRC Consolidated Affiliated Entities

The business activities of the consolidated affiliated entities of the Group, namely the School Sponsor, Xinhua University and Xinhua School, are primarily to offer higher educational services to the Group's students.

E. Significance and financial contributions of PRC Operating Schools

Pursuant to the Structured Contracts, the Group obtains control over and derives the economic benefits from the PRC Consolidated Affiliated Entities. The table below sets out the financial contribution of the PRC Consolidated Affiliated Entities to the Group:

	Significances and financial contribution to the Group					
	Revenue		Net profit		Total assets	
	For the year ended December 31,		For the year ended December 31,		As of December 31,	
	2017	2016	2017	2016	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
PRC Consolidated Affiliated Entities	337,958	303,262	171,958	172,548	1,326,598	1,035,620

F. Revenue and assets involved in Structured Contracts

The table below sets out (i) revenue; and (ii) assets involved in the PRC Consolidated Affiliated Entities, they would be consolidated into the Group's financial statements pursuant to the Structural Contracts:

	Revenue For the year ended December 31, 2017 RMB'000	Total Assets As of December 31, 2017 RMB'000
PRC Consolidated Affiliated Entities	337,958	1,326,598

G. Regulatory Framework

The Group currently conducts its private higher education business through the PRC Operating Schools in the PRC as PRC laws and regulations generally restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners. The Group does not hold any equity interest in its PRC Operating Schools. The Structured Contracts, through which the Group obtains control over and derive the economic benefits from its PRC Operating Schools, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations. The Group had entered into the Structured Contracts for the existing PRC Operating Schools and expect to enter into structured contracts for the schools to be newly established or invested in, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

REPORT OF THE DIRECTORS

1. *Higher Education and National Key Secondary Vocational School*

Pursuant to the Foreign Investment Catalog, the provision of higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalog explicitly restricts higher education to Sino-foreign cooperation, which means the foreign investor shall be an educational institution and shall operate higher education in the PRC through cooperation with a PRC educational institution in compliance with the Sino- Foreign Regulation. In addition, the Foreign Investment Catalog also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools shall be a PRC national; and (b) the representatives of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "Foreign Control Restriction").

While secondary vocational education is not listed in the Foreign Investment Catalog, Xinhua School was recognized by the MOE as a National Key Secondary Vocational School (國家級重點中等職業學校) and therefore was treated as if it falls within the "restricted" category according to the Anhui Education Department.

The Group had fully complied with the Foreign Control Restriction in respect of the PRC Operating Schools on the basis that (a) the principals and the chief executive officers of the PRC Operating Schools are all PRC nationals; and (b) all the members of the board of directors of the PRC Operating Schools are PRC nationals.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if the Group was to apply for any of its schools to be reorganized as a Sino-foreign joint venture private school for PRC students (a "Sino-Foreign Joint Venture Private School"), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and that provides high quality education (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "Foreign Ownership Restriction") and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

The Group's PRC legal advisors have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement. With the assistance of its PRC legal advisors, the Group consulted the Anhui Education Department on June 26, 2017, being the competent authority as advised by the PRC legal advisors to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to the Group. The Group was advised by the director of the department of foreign affairs office (外事處處長) at the Anhui Education Department that:

(i) the Foreign Ownership Restriction and Qualification Requirements applies to Sino-Foreign Joint Venture Private Schools in their region;

(ii) no implementing measures or specific guidance were promulgated pursuant to the Sino-Foreign Regulation, including the Qualification Requirement, in Anhui Province;

(iii) as a matter of policy, no Sino-Foreign Joint Venture Private School has been approved in Anhui Province after the Sino-Foreign Regulation became effective on September 1, 2003;

(iv) the Anhui Education Department expects that the possibility of approving the establishment of Sino-Foreign Joint Venture Private Schools (including but not limited to the Sino-Foreign higher education institution and Sino-Foreign national key secondary vocational school) in Anhui in foreseeable future is very low; and

(v) the execution of the Structured Contracts does not require approval from the education authorities.

The Group's PRC legal advisors are of the view that the aforesaid officer is competent to provide the confirmation on the basis that they have good and authoritative understanding of the PRC laws and regulations regarding Sino-foreign cooperative education and its actual implementation in Anhui Province.

Given that as of the date of this report, as advised by the PRC legal advisors, the Group does not meet the Qualification Requirement as the Group has no experience in operating a school outside of the PRC, and as there are no implementing measures or specific guidance on the Qualification Requirement, it is therefore not practicable for the Group to seek to apply to reorganize any of its PRC Operating Schools and the schools to be newly established or invested by the Group as a Sino-Foreign Joint Venture Private School, or convert any of the PRC Operating Schools and the schools to be newly established or invested by the Group into a Sino-Foreign Joint Venture Private School. The Anhui Education Department has confirmed that the possibility of approving the establishment of Sino-Foreign Joint Venture Private schools in Anhui in foreseeable future is very low.

Notwithstanding the above, the Group is committed to meeting the Qualification Requirement. It has adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. It has undertaken to make periodic inquiries of relevant educational authorities to understand any regulatory developments, including whether there will be any change in policy for approving any Sino-Foreign Joint Venture Private School in Anhui Province, and assess whether it is qualified to meet the Qualification Requirement, with a view to unwinding the Structured Contracts wholly or partially as and when practicable and permissible under the prevailing PRC laws and regulations.

As of the date of this report, the Group has not encountered any interference or encumbrance from any governing bodies in its plan to adopt the Structured Contracts and the consolidated financial results of the PRC Operating Schools are consolidated to those of the Group. The PRC legal advisors have opined that each of the PRC Operating Schools and the School Sponsor has been legally established and except for those disclosed under "Structured Contracts – Legality of the Structured Contracts – PRC Legal Opinions" and "Risk Factors – Risks relating to our Structured Contracts" of the Prospectus, the Structured Contracts in relation to the operation of higher education are valid, legal and binding and do not contravene PRC laws and regulations. According to the PRC legal advisors, under PRC laws and regulations, the failure to meet the Qualification Requirement and the adoption of the Structured Contracts to operate the schools do not render the Group's education business as illegal operations in the PRC. As disclosed above, the Group has obtained confirmation from the Anhui Education Department during the consultations with them that the Structured Contracts do not require approval from the education authorities. However, no positive regulatory assurance has been obtained from relevant PRC regulatory authorities with respect to the use of the Structured Contracts in the education industry, and it is impracticable to obtain such assurance, as no relevant PRC regulatory authorities have ever issued any regulations, rules or notices to prohibit the use of Structured Contracts in the education industry.

REPORT OF THE DIRECTORS

2. *Plan to Comply with the Qualification Requirement*

The Group has adopted a specific plan and begun to take the following concrete steps which it reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement. According to the consultation with the Anhui Education Department, there are no implementing measures or specific guidance on the Qualification Requirement and they are rarely likely to approve an application to convert the PRC Operating Schools into Sino-Foreign Joint Venture Private Schools at this stage and in the foreseeable future. The Group's PRC legal advisors are of the view that based on the understanding of the general provisions of the existing laws and regulations, although it is rarely likely for the Anhui Education Department to approve the Group's application to convert any of its PRC Operating Schools or schools to be newly established or invested by the Group into Sino-Foreign Joint Venture Private Schools at this stage and in the foreseeable future, the following steps taken by the Group to demonstrate compliance with the Qualification Requirements are reasonable and appropriate.

As of the date of this report, the Group had taken the following concrete steps to implement its plan. On August 22, 2017, Xinhua US, a holding company of a new school (i.e., the American College) in the United States, was formed, and it became wholly owned by Xinhua BVI on October 24, 2017. The Group has submitted an application for provisional license for the American College to the CIE on August 29, 2017. On December 27, 2017, the Group received the approval and the provisional license granted by CIE to the American College for a period of one year. Under the provisional license, the American College may advertise, recruit students, accept fees and tuition from or on behalf of students and hold classes, but may not actually award a degree or a credential requiring one year or more to earn. The American College must attain an annual license before awarding degrees or other credentials or seeking CIE's approval to add or substantially modify programs or to add locations. In addition, in connection with the Group's application submitted to the CIE for the approval to establish its new school in Florida, on September 14, 2017, the Group and Keiser University in the U.S. entered into an articulation agreement which contains detailed terms of the Group's collaboration with Keiser University for offering bachelor's degree programs at the campus provided by Keiser University where students can earn a degree awarded by the American College after completing such degree programs. The Group has also nominated Mr. Ni Zheng to be the president of the American College, to oversee the administration of its international operations, including Xinhua US. The Group has expended approximately US$16,800 in connection with its plan as of the date of the report.

In the opinion of the Group's PRC legal advisors, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed but the Qualification Requirement remains and assuming the new school to be operated by Xinhua US, i.e. the American College or another foreign educational institution established by the Group gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School in the future (provided that the then PRC laws and regulations do not impose new requirements, restrictions, or prohibitions in relation to the establishment of the Sino-Foreign Joint Venture Private Schools), the Group will be able to operate its schools in the PRC directly through the new school to be operated by Xinhua US, i.e. the American College or such other educational institution subject to the approval from the competent education authorities. The Group's PRC legal advisors are of the opinion that an educational institution which offers diploma certificates at the university level in a foreign jurisdiction, i.e. the American College to be operated by Xinhua US or such other foreign educational institution subject to the approval from the competent educational authorities established by the Group that acts as the foreign investor for the establishment of a Sino-Foreign Joint Venture Private School for formal higher education is in compliance with the general requirements of the existing PRC laws.

Furthermore, the Group has undertaken to the Stock Exchange that the Group will:

(i) under the guidance of the Group's PRC legal advisors, continue to keep the Group updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirement; and

(ii) provide periodic updates in the annual and interim reports after Listing to inform the Shareholders of the efforts and actions undertaken with the Qualification Requirement.

3. *Draft Foreign Investment Law and the Explanatory Notes*

The Ministry of Commerce ("MOFCOM") published a discussion draft of the proposed Foreign Investment Law in January 2015 aiming to, upon its enactment, replace the major existing laws and regulations governing foreign investment in China. While the MOFCOM solicited comments on this draft in early 2015, substantial uncertainties exist with respect to its enactment timetable, interpretation and implementation. The Draft Foreign Investment Law, if enacted as proposed, may materially impact the entire legal framework regulating foreign investments in China.

Among other things, the Draft Foreign Investment Law purports to introduce the principle of "actual control" in determining whether a company is considered a foreign invested enterprise, or an foreign invested entity ("FIE"). The Draft Foreign Investment Law specifically provides that entities established in China but "controlled" by foreign investors will be treated as FIEs, whereas an entity organized in a foreign jurisdiction, but confirmed by the authority in charge of foreign investment as "controlled" by PRC entities and/or citizens, would nonetheless be treated as a PRC domestic entity for investment in the "restricted category" on the "negative list" to be issued subject to the examination of the relevant authority in charge of foreign investment. For these purposes, "control" is broadly defined in the draft law to cover any of the following summarized categories:

(i) holding directly or indirectly 50% or more of the equity interest, assets, voting rights or similar equity interest of the subject entity;

(ii) holding directly or indirectly less than 50% of the equity interest, assets, voting rights or similar equity interest of the subject entity but (a) having the power to directly or indirectly appoint or otherwise secure at least 50% of the seats on the board or other equivalent decision making bodies, (b) having the power to secure its nominated person to acquire at least 50% of the seats on the board or other equivalent decision making bodies, or (c) having the voting power to exert material influence over decision-making bodies, such as the shareholders' meeting or the board; or

(iii) having the power to exert decisive influence, via contractual or trust arrangements, over the subject entity's operations, financial, staffing and technology matters.

In respect of "actual control", the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Articles 19 of the Draft Foreign Investment Law defined "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If an entity is determined to be an FIE, and its investment amount exceeds certain thresholds or its business operation falls within a "negative list" to be separately issued by the State Council in the future, market entry clearance by the authority in charge of foreign investment would be required.

The "variable interest entity" structure, or VIE structure, has been adopted by many PRC-based companies, and has been adopted by the Company in the form of the Structured Contracts, to establish control of the PRC Operating Schools and the School Sponsor by Xinhua WFOE, through which the Group operates the education business in the PRC. Under the Draft Foreign Investment Law, variable interest entities that are controlled via contractual arrangements would also be deemed as FIEs, if they are ultimately "controlled" by foreign investors. For companies with a VIE structure in an industry category that is in the "restricted category" on the "negative list," it is possible that the existing VIE structure may be deemed legitimate only if the ultimate controlling person(s) is/are of PRC nationality (either PRC state-owned enterprises or agencies, or PRC citizens). Conversely, if the actual controlling person(s) is/are of foreign nationalities, then the variable interest entities will be treated as FIEs and any operation in the industry category on the "negative list" without market entry clearance may be considered as illegal.

Pursuant to the Draft Foreign Investment Law, as far as the new VIE structures are concerned, if a domestic enterprise under the VIE structure is controlled by Chinese nationals, such domestic enterprise may be treated as a Chinese investor and therefore the VIE structures may be regarded as legal. However, if the domestic enterprise is controlled by foreign investors, such domestic enterprise may be treated as a foreign investor or foreign-invested enterprise, and therefore the operation of such domestic enterprise through VIE structures may be regarded as illegal if the domestic enterprise operates in a sector which is on the Negative List and the domestic enterprise does not apply for and obtain the necessary permission.

The Draft Foreign Investment Law stipulates restriction of foreign investment in certain industry sectors. The "negative list" set out in the Draft Foreign Investment Law classified the relevant prohibited and restricted industries into the Catalogue of Prohibitions and the Catalogue of Restrictions, respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sectors set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfil certain conditions and apply for permission before making such investment.

Notwithstanding that the accompanying explanatory notes to the Draft Foreign Investment Law (the "Explanatory Notes") do not provide a clear direction in dealing with VIE structures existing before the Draft Foreign Investment Law becoming effective, which is still pending for further study, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures and conducting business in an industry falling in the Negative List:

(a) to make a declaration to the competent authority that the actual control is vested with Chinese investors, then the VIE structures may be retained for its operation;

(b) to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification by the competent authority, the VIE structures may be retained for its operation;

(c) to apply to the competent authority for permission and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

Where foreign investors and foreign-invested enterprises circumvent the provisions of the Draft Foreign Investment Law by entrusted holding, trust, multi-level reinvestment, leasing, contracting, financing arrangements, protocol control, overseas transaction or otherwise, make investments in sectors specified in the Catalogue of Prohibitions, or make investments in sectors specified in the Catalogue of Restrictions without permission or violate the information reporting obligations specified therein, the penalty shall be imposed in accordance with Article 144 of (Investments in Sectors Specified in the Catalogue of Prohibitions), Article 145 (Violation of Provisions on Access Permission), Article 147 (Administrative Legal Liability for Violating the Information Reporting Obligation) or Article 148 (Criminal Legal Liability for Violating the Information Reporting Obligation) of the Draft Foreign Investment Law, as the case may be.

Where foreign investors make investments in the sectors specified in the Catalogue of Prohibitions, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors make investments in the sectors specified in the Catalogue of Restrictions without authorization, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to cease the implementation of such investments, dispose of equity or other assets within a prescribed time limit, confiscate illegal gains, if any, and impose a fine of not less than RMB100,000 but not more than RMB1 million or of not more than 10% of illegal investments.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, the competent authorities of foreign investment of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government at the place where the investments are made shall order them to make rectifications within a prescribed time limit; if they fail to make rectifications within the prescribed time limit, or the circumstances are serious, a fine of not less than RMB50,000 but not more than RMB500,000 or of not more than 5% of the investments shall be imposed.

Where foreign investors or foreign-invested enterprises are in violation of the provisions of the Draft Foreign Investment Law, including failing to perform on schedule, or evading the performance of, the information reporting obligation, or concealing the truth or providing false or misleading information, and if the circumstances are extremely serious, a fine shall be imposed on the foreign investors or foreign-invested enterprises and the directly responsible person-in-charge and other persons liable shall be sentenced to fixed-term imprisonment of not more than one year or criminal detention.

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Wu, who is of Chinese nationality, will indirectly control approximately 71.78% as at the Listing Date; (ii) the Company through Xinhua WFOE exercises effective control over the PRC Operating Schools and the School Sponsor pursuant to the Structured Contracts; and (iii) Mr. Wu is of Chinese nationality, the Group's PRC legal advisors are of the view that the Group can apply for the recognition of the Structured Contracts as domestic investments and it is likely that the Structured Contracts will be considered as legal.

H. Risks associated with the arrangements and the actions taken to mitigate the risks

The Structured Contracts are used to enable the Group to consolidate the financial results of the PRC Consolidated Affiliated Entities which engage in the operation of higher education services where the PRC laws and regulations currently restrict operation of higher education institutions to Sino-foreign ownership, in addition to imposing qualification requirements on the foreign owners and withholding government approval in respect of Sino-foreign ownership.

1. Risks associated with the arrangements

The PRC government may find that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject the Group to severe penalties and the Group's business may be materially and adversely affected. The Board emphasizes that the Draft Foreign Investment Law proposing sweeping changes to the PRC foreign investment regulatory regime, which would likely to have a significant impact on businesses operated in the PRC by foreign invested enterprises primarily through contractual arrangements. Furthermore, the Group relies on the Structured Contracts to obtains control over and derive the economic benefits from the PRC Consolidated Affiliated Entities, which may not be as effective in providing operational control as direct ownership. The registered owners of the PRC Consolidated Affiliated Entities may have conflicts of interest with the Group or there is deterioration of relations, which may materially and adversely affect the Group's business and financial condition. The Group may not be able to meet the qualification requirement, according to which the foreign investor in a Sino-foreign joint venture private school offering high school and higher education institution must be a foreign educational institution with relevant qualification that provides high quality education, holds less than 50% of the capital investment in the Sino-foreign joint venture private School and the domestic party shall play a dominant role. The Group's execution on the option to acquire school sponsor's interest of the PRC Consolidated Affiliated Entities may be subject to certain limitations and the Company may incur substantial costs and expend significant resources to enforce the Structured Contracts if any of the PRC Consolidated Affiliated Entities fails to perform its obligations thereunder. The Structured Contracts may be subject to scrutiny of PRC tax authorities and additional tax may be imposed, which may materially and adversely affect the Group's results of operation and value of the investment by the Shareholders or potential investors of the Company. Certain terms of the Structured Contracts may not be enforceable under PRC laws. The PRC Consolidated Affiliated Entities may be subject to limitations on their ability to operate private education or make payments to related parties. The Group's ability to distribute dividends to its Shareholders may be limited due to the unclear definition of "reasonable returns" under PRC laws and regulations. Substantial uncertainties exist regarding the interpretation and application of the 2016 Decision, including treatments of schools in the PRC as non-profit schools or for-profit schools. If any of the Group's consolidated affiliated entities becomes subject to winding up or liquidation proceedings, the Group may lose the ability to enjoy certain important assets, which could negatively impact its business and materially and adversely affect its ability to generate revenue. For more details, please refer to the section headed "Risk Factors – Risks relating to our Structured Contracts" in the Prospects.

2. *Actions taken to mitigate the risks*

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Structured Contracts and its compliance with the Structured Contracts:

(a) major issues arising from the implementation and compliance with the Structured Contracts or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(b) the Board will review the overall performance of and compliance with the Structured Contracts at least once a year;

(c) the Company will disclose the overall performance and compliance with the Structured Contracts in its annual reports and interim reports to update the Shareholders and potential investors;

(d) the Company and its Directors undertake to provide periodic updates in its annual and interim reports regarding the Qualification Requirement and its status of compliance with the Draft Foreign Investment Law and its accompanying explanatory notes as stipulated under the section headed "Structured Contracts – Background of the Structured Contracts" and the latest development of the Draft Foreign Investment Law and its accompanying explanatory notes as disclosed under the section headed "Structured Contracts – Development in the PRC Legislation on Foreign Investment", including the latest relevant regulatory development as well as the Group's plan and progress in acquiring the relevant experience to meet the Qualification Requirement; and

(e) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Structured Contracts, review the legal compliance of Xinhua WFOE and the PRC Operating Schools and/or the School Sponsor to deal with specific issues or matters arising from the Structured Contracts.

In addition, notwithstanding that the non-executive Director, Mr. Wu, is also one of the Registered Shareholders, the Group believes that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently after the Listing under the following measures:

(a) the decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

(b) each of the Directors is aware of his fiduciary duties as a Director which requires, amongst other things, that he acts for the benefits and in the best interests of the Group;

(c) the Company has appointed three independent non-executive Directors, comprising over one-third of the Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of the Company and the Shareholders as a whole; and

(d) the Company will disclose in its announcements, circulars, annual and interim reports in accordance with the requirements under the Listing Rules regarding decisions on matters reviewed by the Board (including independent non-executive Directors) relating to any business or interest of each Director and his associates that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

I. Material changes

Save as disclosed above, as of the date of this annual report, there were no material changes in the Structured Contracts and/or the circumstances under which the Structured Contracts were adopted.

J. Unwinding of the Structured Contracts

As of the date of this annual report, there has not been any unwinding of any Structured Contracts, nor has there been any failure to unwind any Structured Contracts when the restrictions that led to the adoption of the Structured Contracts are removed. For more details, please refer to the section headed "Structured Contracts – Operation of the Structured Contracts – Termination of the Structured Contracts" of the Prospectus. In the event that the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Xinhua WFOE will exercise the Equity Call Option in full to unwind the contractual arrangements so that the Company will be able to directly operate the schools without using the Structured Contracts.

For details of the above Structured Contracts, please refer to "Structured Contracts" and "Connected Transactions" in the Prospectus.

(3) Confirmation of independent non-executive Directors

The independent non-executive Directors will review the Service Agreements and Structured Contracts (collectively, the "Continuing Connected Transactions") on an annual basis to confirm that, during the relevant financial year:

(i) the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Group;

(ii) the Continuing Connected Transactions are on normal commercial terms; and

(iii) the Continuing Connected Transactions have been entered into in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

(4) Confirmation of auditors of the Company

The Company was listed on March 26, 2018.

KPMG, the Company's auditor, will carry out procedures annually to report on the Group's Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended December 31, 2017 are set out in note 26 to the consolidated financial statements.

The Company was listed on March 26, 2018. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules since the Listing Date.

ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITIES

As the well-known leading provider of higher education, the Group strikes to perform its social responsibilities in each major area for a sustainable basis with no exceptions in the fields of environmental protection. Primarily engaged in providing educational services, the Group regards the environment of materials recycling and energies saving as instrumental and desirable for the Group's business successes. The Group therefore advocates the business model with energy efficiency and linear progressions on establishing environmental friendly teaching and learning systems for the students and the teachers.

During the Group's business operations, students and teachers are monitored by the internal guidelines for saving utilities such as turning off electrical appliances, air-conditioning, idle lightings and the water taps whenever it is likely to incur unnecessary waste of electricity and water resources. In addition, the Group has implemented and promoted the online and digital teaching methods at the classrooms which drastically reduce the possibility of paper waster. As of December 31, 2017, the Group has not been subject to any fines or regulatory or legal sanctions as a result of any non-compliance with the applicable PRC Environmental laws and regulations in any material aspects. Supported by the directors and senior management's long term strategy of sustainable development, the Group will continuously maintain its demanding standard for environmental protections and performance of its social responsibilities to the community. For more details, please refer to our separate Environmental, Social and Governance ("ESG") Report to be published for the public record.

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to nil.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended December 31, 2017, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended December 31, 2017 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

PERMITTED INDEMNITY PROVISION

Pursuant to article 164(1) of the Articles of Association, the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of the Directors shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts; and none of them shall be answerable for the acts, receipts, neglects or defaults of the other or others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons.

IMPORTANT EVENTS SINCE THE YEAR END

The important events occurred since the year ended December 31, 2017 are disclosed in note 29 to the consolidated financial statements.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Board and external auditor, has reviewed the Group's audited consolidated financial statements for the year ended December 31, 2017.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 65 to 74 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's total issued shares, the prescribed minimum percentage of public float approved by the Stock Exchange and permitted under the Listing Rules, was held by the public at all times from the Listing Date and up to the date of this annual report.

AUDITOR

KPMG was appointed as the auditor for the year ended December 31, 2017. The accompanying financial statements prepared in accordance with IFRSs have been audited by KPMG.

KPMG shall retire at the AGM and, being eligible, will offer itself for re-appointment. A resolution for the re-appointment of KPMG as auditor will be proposed at the AGM.

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

If the shareholders of the Company are not sure about the tax effect on the purchase, holding, sale, trading or exercise of any rights attached to the relevant shares of the Company, they are recommended to consult independent experts for advice.

On behalf of the Board
Wu Junbao
Chairman
China, Anhui, April 30, 2018

CORPORATE GOVERNANCE REPORT

The Company's Shares have been listed on the Stock Exchange since March 26, 2018. As the Company was not listed as of December 31, 2017, the CG Code as set out in Appendix 14 of the Listing Rules does not apply to the Company during the Reporting Period, but has applied to the Company since the Listing Date.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the period from the Listing Date to the date of this annual report. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

Responsibilities

The Board is responsible for the overall leadership of the Group, oversees the Group's strategic decisions and monitors business and performance. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three Board committees including the Audit Committee, the remuneration committee (the "Remuneration Committee") and the nomination committee (the "Nomination Committee") (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

The Company has arranged appropriate liability insurance in respect of legal action against the Directors. The insurance coverage will be reviewed on an annual basis.

Board Composition

As at the date of this annual report, the Board comprises one non-executive Director, three executive Directors and three independent non- executive Directors as follows:

Non-executive Director:
Mr. Wu Junbao

Executive Directors:
Mr. Lu Zhen
Mr. Wang Yongkai
Ms. Wang Li

Independent Non-executive Directors:
Ms. Zhang Kejun
Mr. Yang Zhanjun
Mr. Chau Kwok Keung

The biographies of the Directors are set out under the section headed "Directors and Senior Management" in this annual report.

CORPORATE GOVERNANCE REPORT

During the period from the Listing Date and up to the date of this annual report, the Board has met at all times the requirements under rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has also complied with rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board.

The Company believes that the diversity of Board members will be immensely beneficial for the enhancement of the Company's performance. Therefore, the Company has adopted a Board diversity policy to ensure that the Company will, when determining the composition of the Board, consider Board diversity in terms of, among other things, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on merits, and candidates will be considered against objective criteria with reference to the Company's business model and specific needs, including but not limited to gender, race, language, cultural background, educational background, industry experience and professional experience, having due regard for the benefits of diversity of the Board.

As each of the independent non-executive Directors has confirmed his/her independence pursuant to rule 3.13 of the Listing Rules, the Company considers all of them to be independent parties.

Save as disclosed in the Directors' biographies set out in the section headed "Directors and Senior Management" and otherwise disclosed in this annual report, none of the Directors have any personal relationship (including financial, business, family or other material or relevant relationship) with any other Director and chief executive.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non- executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee.

As regards the CG Code provision requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as the identity of the public companies or organisations and the time involved to the issuer, the Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

Induction and Continuous Professional Development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The company secretary of the Company has from time to time updated and provided written training materials relating to the roles, functions and duties of a Director.

The attendance record of professional training received by the Directors in preparation for the Listing on the Stock Exchange is as follows:

Name of Directors	**Nature of continuous professional development programmes**
Executive Directors	
Mr. Lu Zhen	C/D
Mr. Wang Yongkai	C/D
Ms. Wang Li	C/D
Non-Executive Director	
Mr. Wu Junbao	C/D
Independent Non-Executive Directors	
Ms. Zhang Kejun	C/D
Mr. Yang Zhanjun	C/D
Mr. Chau Kwok Keung	C/D

Notes:

A: Attending seminars and/or meetings and/or forums and/or briefings

B: Giving talks in the seminars and/or meetings and/or forums

C: Attending training relevant to the Company's business conducted by lawyers

D: Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

Chairman and Chief Executive

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and performed by different individuals.

Mr. Wu Junbao is the Chairman of the Board and also the non-executive Director of the Group, responsible for providing opinion and judgment to the Board, while Mr. Lu Zhen is the executive Director and executive vice president of the Group, responsible for the date-to-day management as well as the operation and management of education related matters of the Group. As a result, the roles of the chairman and chief executive are separate and performed by two different individuals.

Appointment and Re-election of Directors

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing by served by either party on the other, which notice shall not expire until the end of the fixed term.

CORPORATE GOVERNANCE REPORT

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Pursuant to the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and making recommendations to the Board on the appointment or re-election of Directors and succession planning for Directors.

Board Meetings

The Company adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are despatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Minutes of meetings are kept by the company secretary of the Company with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and the Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is held. Minutes of the Board meetings are open for inspection by Directors.

During the year ended December 31, 2017, two Board meetings and no general meetings were held and the attendance of each Director at the Board meetings is set out in the table below:

Directors	Attended/Eligible to attend the Board meeting(s)
Mr. Wu Junbao	2/2
Mr. Lu Zhen	2/2
Mr. Wang Yongkai	2/2
Ms. Wang Li	2/2
Ms. Zhang Kejun	2/2
Mr. Yang Zhanjun	2/2
Mr. Chau Kwok Keung	2/2

Model Code for Securities Transactions ("Model Code")

As the Company was not listed on the Stock Exchange as of December 31, 2017, related rules under the Listing Rules concerning the Model Code that Directors shall observe did not apply to the Company for the year ended December 31, 2017.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions from the Listing Date. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the period from the Listing Date to the date of this annual report.

At the same time, since the Listing Date, the Company has also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

Delegation by the Board

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters. Directors could have recourse to seek independent professional advice in performing their duties at the Company's expense and are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by the management.

Corporate Governance Function

The Board recognizes that corporate governance should be the collective responsibility of the Directors which includes:

(a) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors;

(d) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board and report to the Board on matters;

(e) to review the Company's compliance with the CG Code and disclosure in the corporate governance report; and

(f) to review and monitor the Company's compliance with the Company's whistleblowing policy.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, two independent non-executive Directors namely Mr. Chau Kwok Keung (chairman) and Ms. Zhang Kejun, and the non-executive Director namely Mr. Wu Junbao.

The principal duties of the Audit Committee include the following:

1. To review the relationship with the auditor by reference to the work performed by the auditor, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of the auditor;

2. To review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or the auditor before submission to the Board;

3. To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures, including the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

As the Company's shares were listed on the Main Board of the Stock Exchange on March 26, 2018 and the Audit Committee was only set up on March 8, 2018, no meeting was held by the Audit Committee during the year ended December 31, 2017.

Nomination Committee

The Nomination Committee currently comprises three members, including the non-executive Director namely Mr. Wu Junbao (chairman) and two independent non-executive Directors namely Ms. Zhang Kejun and Mr. Yang Zhanjun.

The principal duties of the Nomination Committee include the following:

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and the succession planning for Directors, in particular the chairman and the chief executive officer; and

5. to review the Board diversity policy.

The Nomination Committee assesses the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

As the Company's shares were listed on the Main Board of the Stock Exchange on March 26, 2018 and the Nomination Committee was only set up on March 8, 2018, no meeting was held by the Nomination Committee during the year ended December 31, 2017.

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Ms. Zhang Kejun (chairman) and Mr. Yang Zhanjun, and the non-executive Director namely Mr. Wu Junbao.

The principal duties of the Remuneration Committee include the following:

1. to make recommendations to the Board on the Company's overall policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the management's remuneration proposals with reference to the corporate goals and objectives determined by the Board;

3. to determine the remuneration packages of individual executive Directors and senior management. These include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. to make recommendations to the Board on the remuneration of non-executive Directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his/her associates (as defined in the Listing Rules) is involved in deciding his/her own remuneration.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

As the Company's shares were listed on the Main Board of the Stock Exchange from March 26, 2018 and the Remuneration Committee was only set up on March 8, 2018, no meeting was held by the Remuneration Committee during the year ended December 31, 2017.

CORPORATE GOVERNANCE REPORT

Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board of the Company, whose biographies are set out on pages 19 to 26 of this annual report, for the year ended December 31, 2017 are set out below:

Remuneration band	Number of individual
NIL – RMB260,000	6

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended December 31, 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval.

The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on page 78 of this annual report.

INTERNAL CONTROL

The Board acknowledges that it is the responsibility of the Board for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

The Board has conducted a review of the effectiveness of the internal control system of the Group and noted that the Company has established an internal control department and each of the schools has designated the relevant personnel who will be responsible for monitoring our on-going compliance with the relevant PRC laws and regulations that govern the business operations and overseeing the implementation of any necessary measures. In addition, the Company has adopted a set of internal rules and policies governing the conduct of the employees, including teachers and personnel performing other functions, and also set up a monitoring system to implement anti-bribery and anti-corruption measures so as to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. Therefore the Board considered the internal control system is effective and adequate.

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditor to the Group during the year ended December 31, 2017 was approximately as follows:

Type of Services	Amount (RMB)
Audit services	2,171
Non-audit services	–
Total	2,171

COMPANY SECRETARY

Ms. Ko Nga Kit as the company secretary of the Company, a vice president of SW Corporate Services Group Limited, a company engaged in the business of providing corporate services, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. Her primary contact person at the Company is Mr. Wang Yongkai, an executive Director.

For the year ended December 31, 2017, Ms. Ko Nga Kit has undertaken not less than 15 hours of relevant professional training respectively in compliance with rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with the Shareholders is essential for enhancing investor relations and understanding of the Group's business, performance and strategies. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable Shareholders and investors to make the informed investment decisions.

The annual general meeting of the Company provides opportunity for the Shareholders to communicate directly with the Directors. The chairperson of the Board Committees of the Company will attend the annual general meetings to answer Shareholders' questions. The auditor will also attend the annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

To promote effective communication, the Company adopts a shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and the Shareholders and maintains a website of the Company at (www.chinaxhedu.com), where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information are available for public access.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution will be proposed for each issue at general meetings, including the election of individual Directors.

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange in a timely manner after each general meeting.

Convening of extraordinary general meeting and putting forward proposals

Shareholders may put forward proposals for consideration at a general meeting of the Company according to the Articles of Association. Any one or more members holding as at date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or company secretary of the Company, to require an extraordinary general meeting of the Company to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition.

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

As regards proposing a person for election as a Director, the procedures are available on the website of the Company.

Enquiries to the Board

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the company secretary of the Company at 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum and articles of association of the Company on March 8, 2018, with effect from the same date. There was no change in the memorandum and articles of association of the Company during the period from the Listing Date to the date of this annual report.

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA XINHUA EDUCATION GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Xinhua Education Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 80 to 122, which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements section* of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Income Tax

Refer to Note 7 to the consolidated financial statements and the accounting policy on page 94.

The Key Audit Matter

As per the historical tax returns filed with the relevant tax authorities, the Group's schools which do not require reasonable returns claimed preferential corporate income tax exemption treatment for the year ended December 31, 2017 by not paying corporate income tax on the income from the provision of formal educational services.

This approach was taken with reference to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules") issued by the Ministry of Education. However, up to the date of this report, no separate policies, regulations or rules have been introduced by the tax authorities in this regard and thus management judgement is required in determining whether the Group is entitled to the applicable preferential tax treatment in the relevant accounting periods.

We identified income tax as a key audit matter because management judgement is involved in interpreting the relevant rules and regulation so as to determine whether the Group is entitled to the preferential tax treatment.

How the matter was addressed in our audit

Our audit procedures to assess the adequacy of income tax provisions included the following:

- discussing with the Group's external legal advisors about the tax position taken by the Group, in particular, whether or not the Group's schools are required to pay income tax by their respective tax authorities during 2017 and whether the Group's schools which enjoy such preferential tax treatment are in compliance with applicable laws and regulations in China;

- inspecting the confirmation issued by local tax authorities, to identify if the Group's schools are default in tax or in violation of PRC tax laws;

- involving our internal tax specialist to assist us in analysing the eligibility of the preferential tax treatment enjoyed by the Group's schools and assessing the adequacy of income tax provisions.

KEY AUDIT MATTERS (continued)

Revenue Recognition

Refer to Note 4 to the consolidated financial statements and the accounting policy on page 95.

The Key Audit Matter

Revenue comprises primarily tuition fees and boarding fees. The Group's schools generally receive these fees in advance prior to the beginning of each academic year or semester and initially record them as deferred revenue. Tuition fees and boarding fees are recognised proportionately over the reporting period of the applicable program.

We identified revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue could be manipulated to meet financial expectations or targets and also because the large volume of transactions processed increase the error in recognising revenue.

How the matter was addressed in our audit

Our audit procedures to assess revenue recognition included the following:

- assessing the design, implementation and operating effectiveness of key internal controls over the admission of students and collection of tuition fees and boarding fees;
- performing recalculation of the amount of deferred revenue and the revenue recognised during the year;
- analysing the revenue recognised during the year against the course fees, the number of students enrolled in the courses and the capacity of the boarding facilities;
- on a sample basis, inspecting the evidence of payment of tuition fees and boarding fees from the students; and
- reconciling the enrolled student information of Anhui Xinhua University at the end of the reporting period to the records on the China Credentials Verification website and performing student count to verify the existence of enrolled students.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Frankie C.Y. Lai.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
April 30, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended December 31, 2017

	Note	2017 RMB'000	2016 RMB'000
Revenue	4	**337,958**	303,262
Cost of sales		**(145,481)**	(124,032)
Gross profit		**192,477**	179,230
Other income	5	**53,796**	44,371
Selling and distribution costs		**(5,375)**	(5,677)
Administrative expenses		**(66,857)**	(42,942)
Profit from operations		**174,041**	174,982
Net Finance costs	6(a)	**–**	–
Profit before taxation	6	**174,041**	174,982
Income tax	7	**(2,083)**	(2,434)
Profit for the year		**171,958**	172,548
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Changes in fair value recognised during the year		**9,715**	4,772
Reclassification to profit or loss on disposal		**(9,262)**	(5,368)
Other comprehensive income for the year		**453**	(596)
Total comprehensive income for the year		**172,411**	171,952
Earnings per share	10		
Basic and diluted (RMB cents)		**14.33**	14.38

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at December 31, 2017

	Note	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment	11	**491,883**	470,296
Lease prepayments	12	**90,437**	92,994
Intangible assets	13	**5,301**	3,579
Other non-current assets	14	**197,939**	601
		785,560	567,470
Current assets			
Trade receivables	16	**201**	1,199
Prepayments, deposits and other receivables	17	**12,293**	3,532
Amounts due from related parties	26(b)	**–**	237,477
Available-for-sale financial assets	18	**235,521**	120,068
Cash and cash equivalents	19	**293,023**	105,874
		541,038	468,150
Current liabilities			
Deferred revenue	20	**191,773**	166,878
Other payables	21	**130,932**	87,009
Amounts due to related parties	26(b)	**511**	9,182
Deferred income	22	**881**	633
Current taxation		**2,073**	4,926
		326,170	268,628
Net current assets		**214,868**	199,522
Total assets less current liabilities		**1,000,428**	766,992

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at December 31, 2017

	Note	**2017** **RMB'000**	2016 RMB'000
Non-current liabilities			
Deferred income	22	**503**	378
		503	378
NET ASSETS		**999,925**	766,614
Equity			
Share capital	23	–*	50,000
Reserves		**999,925**	716,614
TOTAL EQUITY		**999,925**	766,614

* The balance represents an amount less than RMB1,000.

Approved and authorised for issue by the board of directors on April 30, 2018.

Lu Zhen
Executive Director

Wang Yongkai
Executive Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended December 31, 2017

		Attributable to equity shareholders of the Company					
	Note	Share capital RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Fair value reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at January 1, 2016		50,000	–	133,251	664	410,747	594,662
Changes in equity for 2016:							
Profit for the year		–	–	–	–	172,548	172,548
Other comprehensive income		–	–	–	(596)	–	(596)
Total comprehensive income		–	–	–	(596)	172,548	171,952
Appropriation to reserves	23(b)(ii)	–	–	41,687	–	(41,687)	–
Balance at December 31, 2016 and January 1, 2017		50,000	–	174,938	68	541,608	766,614
Changes in equity for 2017:							
Profit for the year		**–**	**–**	**–**	**–**	**171,958**	**171,958**
Other comprehensive income		**–**	**–**	**–**	**453**	**–**	**453**
Total comprehensive income		**–**	**–**	**–**	**453**	**171,958**	**172,411**
Capital injection by shareholders	23(b)(i)	**1,720**	**59,180**	**–**	**–**	**–**	**60,900**
Elimination on the completion of the Reorganisation	23(b)(i)	**(51,720)**	**51,720**	**–**	**–**	**–**	**–**
Appropriation to reserves	23(b)(ii)	**–**	**–**	**47,631**	**–**	**(47,631)**	**–**
Balance at December 31, 2017		**–***	**110,900**	**222,569**	**521**	**665,935**	**999,925**

* The balance represents an amount less than RMB1,000.

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended December 31, 2017

	Note	2017		2016	
		RMB'000	RMB'000	RMB'000	RMB'000
Operating activities					
Cash generated from operations		**262,546**		210,033	
Income tax paid		**(5,295)**		–	
Net cash generated from operating activities			**257,251**		210,033
Investing activities					
Payment for the purchase of property, plant and equipment		**(59,446)**		(61,142)	
Proceeds from sale of property, plant and equipment		**43**		12	
Payment for purchase of intangible assets		**(2,938)**		(1,206)	
Prepayment for cooperation agreement		**(195,961)**		–	
Net repayment from/(advance to) related parties		**233,038**		(277,497)	
Loans lent to a related party		**–**		(264,500)	
Loans repaid by a related party		**–**		265,000	
Interest from loan lent to a related party		**–**		830	
Payment for purchase of available-for-sale financial assets		**(1,579,000)**		(1,031,000)	
Proceeds from sale of available-for-sale financial assets		**1,473,262**		1,162,368	
Net cash used in investing activities			**(131,002)**		(207,135)
Financing activities					
Proceeds from bank loans		**–**		264,500	
Repayment of bank loans		**–**		(265,000)	
Borrowing costs paid		**–**		(830)	
Capital injection from shareholders	23(b)(i)	**60,900**		–	
Net cash generated from/(used in) financing activities			**60,900**		(1,330)
Net increase in cash and cash equivalents			**187,149**		1,568
Cash and cash equivalents at beginning of the year			**105,874**		104,306
Cash and cash equivalents at end of the year	19		**293,023**		105,874

The accompanying notes form part of these financial statement

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on August 30, 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company and its subsidiaries (together, "the Group") are principally engaged in the formal higher and secondary vocational education business in the People's Republic of China (the "PRC").

Pursuant to a group reorganisation completed on October 31, 2017 (the "Reorganisation") to rationalise the Group's structure in preparation for the public offering (the "Offering") of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group.

Prior to October 31, 2017, the Group's higher and secondary vocational education business was conducted through Anhui Xinhua University ("Xinhua University"), Anhui Xinhua School ("Xinhua School") and Anhui Xinhua Group Investment Co., Ltd ("Xinhua Group") (the "PRC Operating Entities"), which were ultimately owned and controlled by the same equity holder (hereinafter referred to as the "Controlling Shareholder") through direct or indirect equity holdings in the PRC Operating Entities. As part of the Reorganisation, the Group obtained control of the PRC Operating Entities and continued to obtain the economic benefits from the education business by executing certain structured contracts. On October 31, 2017, Anhui Ronghua Education Technology Co., Ltd ("Xinhua Anhui"), an indirect wholly-owned subsidiary of the Company, entered into certain contracts (the "Structured Contracts") with the PRC Operating Entities and their respective equity holders. The Structured Contracts, taken as a whole, enable Xinhua Anhui to have effective control over the operating and financial policies of the PRC Operating Entities. The directors of the Group are of the view that, notwithstanding the lack of equity ownership, the Structured Contracts effectively provide Xinhua Anhui the power to govern and control the PRC Operating entities so as to obtain benefits from their business activities. Accordingly, the PRC Operating Entities are included in the Group's consolidated financial statements as controlled subsidiaries.

All the companies now comprising the Group (including the PRC Operating Entities) that took part in the Reorganisation were ultimately controlled by the Controlling Shareholder both before and after the Reorganisation. Since there was a continuation of the risks and benefits of the Controlling Shareholder, the Reorganisation is considered to be a combination of entities under common control. These financial statements have been prepared using the merger basis of accounting as if the current Group structure had always been in existence at the beginning of the earliest year presented.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended December 31, 2017 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial instruments classified as available-for-sale (see Note 2(f)) are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in Note 19(c) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries (continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment loss (see Note 2(j)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Business combinations involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling Shareholder.

The assets and liabilities of the consolidating entities or businesses are consolidated at the carrying amounts previously recognised in the respective controlling shareholder's financial statements.

The consolidated statements of profit or loss and comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been consolidated at the earliest balance sheet date presented or when they first came under common control, whichever is later.

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments.

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Other investments in debt and equity securities (continued)

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see Note 2(j)(i)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see Note 2(j)(i)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the group commits to purchase/sell the investments or they expire.

(g) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings	20 years
– Motor vehicles	10 years
– Furniture and fixtures	3 – 5 years
– Electronic devices	3 – 5 years

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 2(j)(ii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed.

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Computer software	5 years

Both the period and method of amortisation are reviewed annually.

(i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leased assets (continued)

(ii) Lease prepayments

Lease prepayments represent cost of land use right paid to the PRC governmental authorities or third parties.

Lease prepayments are stated at cost less accumulated amortisation and impairment losses (see Note 2(j)(ii)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets

(i) Impairment of investments in debt securities and receivables

Investments in debt securities and current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(i) Impairment of investments in debt securities and receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– lease prepayments;

– intangible assets; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(j)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

For equity-settled share-based payment transactions, the fair value of the services received is recognised as an expense with a corresponding increase in equity over the vesting period during which the employees become unconditionally entitled to the equity instrument. The fair value of the services received is determined by reference to the fair value of the equity instrument granted at the date of the grant. At each reporting date, the number of equity instruments that are expected to be vested are estimated. The impact on the revision of original estimates is recognised as an expense and as a corresponding adjustment to equity over the remaining vesting period, unless the revision to original estimates is due to market conditions. No adjustment is made if the revision or actual outcome differs from the original estimate due to market conditions.

The proceeds received from the exercise of the equity instruments, net of any directly attributable transaction costs, are credited to share capital when the equity instruments are exercised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Tuition and boarding fee

Tuition and boarding fees received by university and school are generally in advance prior to the beginning of each academic year or semester, and initially recorded as deferred revenue. Tuition and boarding fees are recognised proportionately over the reporting period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded as deferred revenue and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within one year. The academic year of the Group's university and school is generally from September to June of the following year.

(ii) Service income

Service income is recognized on the percentage of completion basis, in the period in which the services are rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE FINANCIAL STATEMENTS

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgement in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

Structured contracts

The Group conducts a substantial portion of the business through the PRC Operating Entities due to regulatory restrictions on the foreign ownership in the Group's schools in the PRC. The Group does not have any equity interest in the PRC Operating Entities. The directors assessed whether or not the Group has control over the PRC Operating Entities, has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. After assessment, the directors concluded that the Group has control over the PRC Operating Entities as a result of the Structured Contracts and accordingly the financial position and their operating results of the PRC Operating Entities are included in the Group's consolidated financial statements throughout the year.

Nevertheless, the Structured Contracts may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Operating Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Operating Entities. The directors, based on the advice of its other legal counsel, consider that the Structured Contracts among the PRC Operating Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Depreciation

As described in Note 2(g), property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(b) Sources of estimation uncertainty (continued)

(ii) Impairment of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(j)(ii). The carrying amounts of the Group's non-current assets, including property, plant and equipment and lease prepayments are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and the fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate selling price of the Group's non-current assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

	2017	2016
	RMB'000	RMB'000
Revenue		
Tuition fees	**300,883**	270,394
Boarding fees	**37,075**	32,868
Total	**337,958**	303,262

Revenue represents the value of service rendered during the year. No service provided to a single customer exceeds 10% or more of the total revenue of the Group during the year.

(b) Segment Reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the provision of education services.

NOTES TO THE FINANCIAL STATEMENTS

5 OTHER INCOME

	2017 RMB'000	2016 RMB'000
Rental and property management income	**21,311**	20,850
Service income	**14,931**	14,863
Government grants *(Note (i))*	**6,193**	1,657
Available-for-sale financial assets:		
reclassification from equity on disposal	**9,262**	5,368
Other interest income	**756**	696
Others	**1,343**	937
	53,796	44,371

Note (i): Government grants mainly represent the grants from the local government for the purpose of compensating the operating expenses arising from the schools' teaching activities, scientific researches and expenditures on facilities.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2017 RMB'000	2016 RMB'000
(a) Net Finance costs		
Interest expense on bank loans	**–**	830
Interest income from loan lent to a related party *(i)*	**–**	(830)
	–	–

(i) Loans were lent to the related party Anhui Xinhua Investment Co., Ltd and fully repaid in 2016.

6 PROFIT BEFORE TAXATION (continued)

	2017 RMB'000	2016 RMB'000
(b) Staff costs		
Salaries, wages and other benefits	**91,650**	85,797
Contributions to defined contribution retirement plan *(i)*	**6,520**	6,306
	98,170	92,103

(i) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

	2017 RMB'000	2016 RMB'000
(c) Other items		
Depreciation	**48,027**	41,167
Amortisation of intangible assets	**1,216**	952
Amortisation of lease prepayments	**2,557**	2,557
Auditors' remuneration	**2,171**	25
	53,971	44,701

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2017 RMB'000	2016 RMB'000
Current tax		
Provision for PRC income tax for the year	**2,083**	2,434

(i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Island and accordingly is not subject to income tax.

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

(iii) Pursuant to the PRC Income Tax Law and the respective regulations, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on its taxable income.

(iv) According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year and up to the date of this report, no separate policies, regulations or rules have been introduced by the tax authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, the Group's schools which do not require reasonable returns did not pay corporate income tax for the income from provision of formal educational services and had enjoyed the preferential corporate income tax exemption treatment since their establishment. As a result, no income tax expense for the income from provision of formal educational services was recognised for the Group's schools for the year ended December 31, 2017.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2017 RMB'000	2016 RMB'000
Profit before taxation	**174,041**	174,982
Tax at the statutory rate	**43,510**	43,746
Tax effect of non-taxable income	**(45,941)**	(40,545)
Tax effect of temporary difference and tax losses not recognized	**4,441**	(786)
Tax effect of non-deductible expenses	**73**	19
Actual income tax expense	**2,083**	2,434

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

(c) Deferred tax assets not recognized

As at December 31, 2017, the Group has not recognised deferred tax assets in respect of deductible temporary differences and tax losses with total amount of RMB21,209,224 (2016: RMB3,446,129), as it is not probable that future taxable profits against which the deductible temporary differences can be utilised will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognized

The PRC Enterprise Income Tax law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/ arrangement, for dividend distributions out of earnings accumulated beginning on January 1, 2008. Undistributed earnings generated prior to January 1, 2008 are exempted from such withholding tax.

As at December 31, 2017, the Group has not recognized deferred tax liabilities in respect of undistributed earnings generated by its PRC entities, with approximate total amount of RMB606,584,000 (2016: RMB482,257,000). In the opinion of the directors, the Group's undistributed earnings will be retained in the PRC for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	2017 Total RMB'000
Chairman and non-executive Director				
Mr. Wu Junbao	–	–	–	–
Executive directors				
Mr. Wang Yongkai	–	201	–	201
Mr. Lu Zhen	–	215	9	224
Mrs. Wang Li	–	215	8	223
	–	631	17	648

8 DIRECTORS' EMOLUMENTS (continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Contributions to retirement benefit schemes RMB'000	2016 Total RMB'000
Chairman and non-executive Director				
Mr. Wu Junbao	–	–	–	–
Executive directors				
Mr. Wang Yongkai	–	207	–	207
Mr. Lu Zhen	–	195	8	203
Mrs. Wang Li	–	169	8	177
	–	571	16	587

Except for Mr. Wu Junbao, no directors of the Group waived or agreed to waive his or her remuneration during the year.

During the year, there was no amount paid or payable by the Group to the directors or any of the five highest paid individuals as set out in Note 9 below as an inducement to join or upon joining the Company or as compensation for loss of office.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments of the Group, none of them are directors of the Company (2016: none). The aggregate of the emoluments in respect of the five individuals are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowance and benefits in kind	**1,424**	1,311
Contributions to retirement benefit schemes	**26**	24
	1,450	1,335

The emoluments of the above individuals are within the band of Nil to HKD1,000,000.

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended December 31, 2017 is based on the profit attributable to equity holder of the Company for the year ended December 31, 2017 and the 1,200,000,000 shares in issue (2016: 1,200,000,000 shares) after taking into account the Capitalization Issue (Note 29).

There were no dilutive potential ordinary shares for the year ended December 31, 2017 and, therefore, diluted earnings per share are equivalent to basic earnings per share.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At January 1, 2016	394,564	8,738	117,879	53,600	105,516	680,297
Additions	10,237	891	7,589	5,746	47,787	72,250
Disposals	–	(62)	(94)	(28)	–	(184)
Transfers	88,541	–	821	–	(89,362)	–
At December 31, 2016	493,342	9,567	126,195	59,318	63,941	752,363
At January 1, 2017	**493,342**	**9,567**	**126,195**	**59,318**	**63,941**	**752,363**
Additions	**–**	**1,453**	**9,671**	**6,779**	**51,754**	**69,657**
Disposals	**–**	**(545)**	**(476)**	**(708)**	**–**	**(1,729)**
Transfers	**83,024**	**–**	**107**	**750**	**(83,881)**	**–**
At December 31, 2017	**576,366**	**10,475**	**135,497**	**66,139**	**31,814**	**820,291**
Accumulated depreciation:						
At January 1, 2016	(135,059)	(4,755)	(68,326)	(32,932)	–	(241,072)
Charge for the year	(21,779)	(728)	(12,976)	(5,684)	–	(41,167)
Disposal	–	55	89	28	–	172
At December 31, 2016	(156,838)	(5,428)	(81,213)	(38,588)	–	(282,067)
At January 1, 2017	**(156,838)**	**(5,428)**	**(81,213)**	**(38,588)**	**–**	**(282,067)**
Charge for the year	**(26,973)**	**(813)**	**(13,303)**	**(6,938)**	**–**	**(48,027)**
Disposal	**–**	**505**	**473**	**708**	**–**	**1,686**
At December 31, 2017	**(183,811)**	**(5,736)**	**(94,043)**	**(44,818)**	**–**	**(328,408)**
Net book value:						
At December 31, 2016	336,504	4,139	44,982	20,730	63,941	470,296
At December 31, 2017	**392,555**	**4,739**	**41,454**	**21,321**	**31,814**	**491,883**

The Group's buildings are situated in Anhui province, the PRC. Certificates of ownership in respect of certain buildings of the Group with total net carrying amounts of RMB135,452,654 as at December 31, 2017 (2016: RMB84,088,586) have not yet been issued by the relevant PRC authorities. As at the end of the year, the directors were in the process of obtaining these certificates.

NOTES TO THE FINANCIAL STATEMENTS

12 LEASE PREPAYMENTS

	2017 RMB'000	2016 RMB'000
Cost:		
At January 1,	**127,872**	127,872
Additions	**–**	–
At December 31,	**127,872**	127,872
Accumulated amortisation:		
At January 1,	**(34,878)**	(32,321)
Charge for the year	**(2,557)**	(2,557)
At December 31,	**(37,435)**	(34,878)
Net book value:		
At December 31,	**90,437**	92,994

Lease prepayments represent cost of land use rights in respect of land located in the PRC with lease term of 50 years.

13 INTANGIBLE ASSETS

	2017 RMB'000	2016 RMB'000
Cost:		
At January 1,	**8,649**	7,443
Additions	**2,938**	1,206
At December 31,	**11,587**	8,649
Accumulated amortisation:		
At January 1,	**(5,070)**	(4,118)
Charge for the year	**(1,216)**	(952)
At December 31,	**(6,286)**	(5,070)
Net book value:		
At December 31,	**5,301**	3,579

Intangible assets are all computer software during the year.

14 OTHER NON-CURRENT ASSETS

	2017 RMB'000	2016 RMB'000
Prepayment *(Note (i))*	**197,939**	601

Note (i): As at December 31, 2017, other non-current assets represent a prepayment of RMB195,961,300 which is made to Anhui Medical University for the agreement to jointly operate the School of Clinical Medicine, and convert the School of Clinical Medicine into a stand-alone higher education institution owned and operated solely by the Group.

15 INVESTMENTS IN SUBSIDIARIES

As at December 31, 2017, the Company, either through legal ownership or implementation of the Structured Contracts, has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Registered capital/issued and fully paid up capital	Percentage of equity attributable to the company		Principal activities
			Direct	Indirect	
Xinhua Education International Limited	British Virgin Islands August 31, 2017	USD500/ USD0.01	100%	–	Investment Holding
Hong Kong Xinhua Education Limited	Hong Kong September 8, 2017	HKD1/ HKD1	–	100%	Investment Holding
Xinhua Education, Inc.	The United States August 22, 2017	USD0.1/ USD0.01	–	100%	Investment Holding
Anhui Ronghua Education Technology Co., Ltd* 安徽融華教育科技有限公司 *(Note (a))*	The PRC September 30, 2017	RMB10,000,000/ –	–	100%	Provision of technical and management consultancy services
Anhui Xinhua Group Investment Co., Ltd* 安徽新華集團投資有限公司 *(Note (b))*	The PRC September 1, 1999	RMB51,720,000/ RMB51,720,000	–	100%	Investment Holding
Anhui Xinhua University* 安徽新華學院 *(Note (b))*	The PRC June 18, 2000	RMB60,480,000/ RMB60,480,000	–	100%	Provision of formal undergraduate and junior college education services
Anhui Xinhua School* 安徽新華學校 *(Note (b))*	The PRC April 11, 2002	RMB4,950,000/ RMB4,950,000	–	100%	Provision of formal vocational secondary school education services

Note:

(a) This entity is incorporated in the PRC as a wholly foreign-owned enterprise by Hong Kong Xinhua Education Limited.

(b) These are PRC operating entities ultimately controlled by the Controlling Shareholder through Structured Contracts.

* The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

NOTES TO THE FINANCIAL STATEMENTS

16 TRADE RECEIVABLES

As at the end of the reporting end, an ageing analysis of the Group's trade receivables, based on the transaction date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 1 year	**201**	1,182
More than 1 year but less than 2 years	–	17
	201	1,199

Details on the Group's credit policy are set out in Note 24(a).

No allowance for doubtful debts was made as of the end of the year.

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments and deposits	**1,129**	1,209
Other receivables	**11,164**	2,323
	12,293	3,532

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 RMB'000	2016 RMB'000
Available-for-sale securities	**235,521**	120,068

Available-for-sales securities comprise the investments in wealth management products purchased from banks in the PRC.

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2017 RMB'000	2016 RMB'000
Cash at bank and on hand	**293,023**	105,874

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2017 RMB'000	2016 RMB'000
Profit before taxation		**174,041**	174,982
Adjustments for:			
Depreciation and amortisation	6(c)	**49,243**	42,119
Amortisation of lease prepayments	6(c)	**2,557**	2,557
Available-for-sale financial assets:			
reclassify from equity on disposal	5	**(9,262)**	(5,368)
Operating profit before changes in working capital		**216,579**	214,290
(Increase)/decrease in trade and other receivables		**(7,404)**	1,493
Increase in deferred revenue		**24,895**	13,037
Increase/(decrease) in other payables		**28,103**	(18,268)
Increase/(decrease) in deferred income		**373**	(519)
Cash generated from operations		**262,546**	210,033

(c) Reconciliation of liabilities arising from financing activities

	Bank loans RMB'000	Interest payable RMB'000	Total RMB'000
Balance at January 1, 2016	500	–	500
Non-cash changes			
– Interest expense on bank loan *(Note 6 (a))*	–	830	830
Cash flows			
– Inflow from financing activities	264,500	–	264,500
– Outflow from financing activities	(265,000)	(830)	(265,830)
Balance at December 31, 2016 and January 1, 2017	–	–	–
Non-cash changes			
– Interest expense on bank loan *(Note 6 (a))*	–	–	–
Cash flows			
– Inflow from financing activities	–	–	–
– Outflow from financing activities	–	–	–
Balance at December 31, 2017	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

20 DEFERRED REVENUE

	2017	2016
	RMB'000	RMB'000
Tuition fees	**165,174**	146,581
Boarding fees	**26,599**	20,297
	191,773	166,878

21 OTHER PAYABLES

	2017	2016
	RMB'000	RMB'000
Miscellaneous expenses received from students *(Note (i))*	**31,300**	30,199
Accrued expenses	**5,943**	9,565
Payables to suppliers	**29,173**	16,460
Accrued staff costs	**13,032**	12,256
Interest payable	**–**	–
Others	**25,682**	18,529
Accrued listing expenses	**25,802**	–
	130,932	87,009

Note (i): the amount represent miscellaneous expenses received from students which will be paid out on behalf of students.

All other payables are expected to be settled within one year.

22 DEFERRED INCOME

	2017	2016
	RMB'000	RMB'000
Government grants		
At beginning of year	**1,011**	1,530
Grants received	**6,566**	1,138
Charged to profit or loss	**(6,193)**	(1,657)
At end of year	**1,384**	1,011
Current	**881**	633
Non-current	**503**	378
	1,384	1,011

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

The share capital of the Group as at December 31, 2016 represents the aggregate amount of the paid-in capital of all the entities comprising the Group at the balance sheet date, after elimination of investment in subsidiaries.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on August 30, 2017 with an authorized share capital of HK$380,000 divided into 38,000,000 shares with par value of HK$0.01 each, of which 5,172 shares were allotted and issued on August 30, 2017.

Pursuant to the Reorganisation, the Company became the holding company of the Group. The share capital of the Group as at December 31, 2017 represents the issued capital of the Company at the balance sheet date.

(b) Nature and purpose of reserves

(i) Capital reserve

The capital reserve comprises the following:

– On August 18, 2017, Hefei Hua Yuan Equity Investment Limited Partnership ("Huayuan Partnership") entered into a capital increase agreement with Xinhua Group, Mr.Wu Junbao and Mr. Wu Di to invest RMB60,900,000 in Xinhua Group, among which RMB1,720,000 was contributed to the registered capital and the remaining amount was contributed to the capital reserve of Xinhua Group.

– On October 31, 2017, the Company became the holding company of the Group, and the aggregate amount of the paid-in capital of all the entities comprising the Group were transferred to the capital reserve.

(ii) PRC statutory reserves

Statutory reserves are established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors' meeting. These reserves include (i) general reserve of the limited liability companies and (ii) the development fund of schools.

– In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

– According to the relevant PRC laws and regulations, for private schools that do not require reasonable returns, they are required to appropriate to the development fund not less than 25% of the annual increase of net assets of the relevant school as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the school or procurement or upgrading of educational equipment.

NOTES TO THE FINANCIAL STATEMENTS

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Nature and purpose of reserves (continued)

(iii) Employee share purchase plan ("ESPP")

As disclosed in Note 23(b)(i), Huayuan Partnership entered into a capital increase agreement in Xinhua Group. Huayuan Partnership's limited partners mainly consisted of employees of the Group. All participants of the ESPP purchased equity interest at amounts (the "Subscription Amounts") specified in the partnership agreement with a vesting period. Employees participating in the plan have to transfer out their equity interests if their employments with the Group was terminated within the vesting period from the equity interests purchase dates, to a person or a party nominated by the general partner of the partnership firm at a price of the Subscription Amounts.

Discounted Cash Flow Model had been used to estimate the fair value of the equity interest of Xinhua Group. As at June 30, 2017, the estimated fair value of the equity interests granted to Huayuan Partnership was approximate RMB60,900,000, which was carried out by an independent valuer.

No expense was recognised for the year ended December 31, 2017 in relation to the Xinhua Group ESPP as the consideration paid by participants of ESPP approximates to the fair value of the equity interests granted to Huayuan Partnership.

(c) Dividends

There were no dividends approved and paid by the Company in 2017 (2016: nil).

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-asset ratio. This ratio is calculated as total liabilities divided by total assets.

The debt-to-asset ratios at December 31, 2017 and 2016 were as follows:

	2017	2016
	RMB'000	RMB'000
Total liabilities	**326,673**	269,006
Total assets	**1,326,598**	1,035,620
Debt-to-asset ratios	**25%**	26%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit and liquidity risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and financial assets which comprise bank balances and available-for-sale securities. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, the balances represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year or semester, which normally commences in September or February. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

In respect of other receivables, individual credit evaluations are performed on all counterparty requiring credit over a certain amount. These evaluations focus on the counterparty's past history of making payments when due and current ability to pay, and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. In view of the fact that the Group's other receivables relate to a large number of diversified counterparties, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its other trade receivable balances. Other receivables are non-interest-bearing.

In respect of available-for-sale securities, the Group transacts mainly with recognized and creditworthy banks, and the maximum exposure equal to the carrying amount of these securities.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements, and to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following are the contractual maturities of the Group's financial liabilities at the end of the respective reporting period, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(b) Liquidity risk (continued)

	At December 31, 2017			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Other payables	**130,932**	**–**	**130,932**	**130,932**
Amounts due to related parties	**511**	**–**	**511**	**511**
	131,443	**–**	**131,443**	**131,443**

	At December 31, 2016			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Other payables	87,009	–	87,009	87,009
Amounts due to related parties	9,182	–	9,182	9,182
	96,191	–	96,191	96,191

(c) Fair values

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the respective reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 input i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Fair values (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

The Group has a team headed by the finance manager performing valuation for wealth management products which are categorized into Level 3 of the fair value hierarchy. The team reports directly to the head of finance department. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the head of finance department. Discussion of the valuation process and results with the head of finance department and the directors is held twice a year, to coincide with the reporting dates.

	2017 RMB'000	2016 RMB'000
Level 3	**235,521**	120,068

The fair values of unlisted available-for-sale investments in banks' wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future interest return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statements of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of reporting period.

Below is a summary of significant unobservable inputs to the valuation of these wealth management products together with a quantitative sensitivity analysis at the end of reporting period:

December 31, 2017

	Valuation techniques	**Significant unobservable inputs**	**Range**	**Sensitivity of fair value to the input**
Bank's wealth management products, at fair value	**Discounted cash flow method**	**Interest return rate**	**3.50% to 4.55%**	**0.50% increase/(decrease) in Interest return rate would result in increase/(decrease) in fair value by RMB53,000.**

December 31, 2016

	Valuation techniques	Significant unobservable inputs	Range	Sensitivity of fair value to the input
Bank's wealth management products, at fair value	Discounted cash flow method	Interest return rate	4.35% to 5.00%	0.50% increase/(decrease) in Interest return rate would result in increase/(decrease) in fair value by RMB7,000.

NOTES TO THE FINANCIAL STATEMENTS

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Fair values (continued)

(i) Financial assets and liabilities measured at fair value (continued)

During the year, there was no transfer between instruments in Level 1 and Level 2. The movements during the year in the balance of these Level 3 fair value measurements were as follows:

	2017 RMB'000	2016 RMB'000
Available-for-sale investment:		
At January 1,	**120,068**	246,664
Payment for purchases	**1,579,000**	1,031,000
Net unrealised gains or losses recognised in other comprehensive income during the period	**521**	68
Redemption of investment	**(1,464,068)**	(1,157,664)
At December 31,	**235,521**	120,068

The gains arising from the disposal are presented in "Other income" in the combined statement of profit or loss and other comprehensive income. The net unrealised gains arising from the remeasurement of the available-for-sale investments are recognised in fair value reserve in other comprehensive income.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair values as at December 31, 2017 and 2016 due to short-term maturity of these instruments.

25 COMMITMENTS

Capital commitments of the Group in respect of plant, property and equipment outstanding at December 31, 2017 and 2016 not provided for in the consolidated financial statements were as follows:

	2017 RMB'000	2016 RMB'000
Contracted for	**15,261**	39,690
Authorised but not contracted for	**107,500**	–
	122,761	39,690

26 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended December 31, 2017, the directors are of the view that the following companies and persons are related parties of the Group:

Name of party	Relationship
Wu Junbao	Controlling Shareholder
Anhui Xinhua Investment Co., Ltd ("Xinhua Investment") 安徽新華投資有限公司	Fellow subsidiary
Anhui Huadong Chuanmei Co., Ltd ("Huadong Chuanmei") 安徽華動文化傳媒有限公司	Fellow subsidiary
Anhui New East Cuisine Education Institute ("New East Cuisine") 安徽新東方烹飪專修學院	Fellow subsidiary
Xinhua Computer College ("Xinhua Computer") 新華電腦專修學院	Fellow subsidiary
Hefei Wanzhi Trading Co., Ltd ("Hefei Wanzhi") 合肥皖智商貿有限公司	Fellow subsidiary

Note: The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

(a) Significant related party transactions

	2017 **RMB'000**	2016 RMB'000
Interest income from loan lent to a related party	**–**	830
Service fee charged by related parties	**2,778**	2,741
Purchase of property, plant, and equipment and merchandise	**3,939**	5,255
Net repayment/(advance to) from related parties	**233,038**	(277,497)
Loan lent to a related party	**–**	264,500
Loan repaid by a related party	**–**	265,000

26 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

During the year ended December 31, 2017, the directors are of the view that the following companies and persons are related parties of the Group:

Amounts due from:

	2017 RMB'000	2016 RMB'000
Non-trade related:		
Huadong Chuanmei	–	52
Wu Junbao	–	142,850
Xinhua Investment	–	94,575
	–	237,477

Amounts due to:

	2017 RMB'000	2016 RMB'000
Trade related:		
Hefei Wanzhi	–	4,232

	2017 RMB'000	2016 RMB'000
Non-trade related:		
Wu Junbao	**511**	4,950

(c) Key management personnel remuneration

Key management personnel remuneration is disclosed in Notes 8 and 9.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	As at December 31, 2017 RMB'000
Non-current assets	
Investments in subsidiaries	–*
	–*
Current assets	
Cash and cash equivalents	–*
	–*
Current liabilities	
Amounts due to related parties	–*
	–*
Net current assets	–*
Total assets less current liabilities	–*
Net assets	–*
Equity	
Share capital	–*
Retained earnings	–
Total equity	–*

* The balance represents an amount less than RMB1,000.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended December 31, 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
IFRS 9, *Financial instruments*	January 1, 2018
IFRS 15, *Revenue from contracts with customers*	January 1, 2018
IFRS 15 (Amendment), Clarification to IFRS 15 *Revenue from contracts with customers*	January 1, 2018
IFRS 2 (Amendment), *Classification and measurement of share-based payment transactions*	January 1, 2018
IFRS 4 (Amendment), *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	January 1, 2018
IFRS 1 (Amendment), *First time adoption of IFRS*	January 1, 2018
IAS 28 (Amendment), *Investments in associates and joint ventures*	January 1, 2018
IFRIC 22, *Foreign currency transactions and advance consideration*	January 1, 2018
IAS 40 (Amendment), *Transfers of investment property*	January 1, 2018
Annual Improvements 2014-2016 Cycle, Amendments to a number of IFRSs	January 1, 2018
IFRS 10 and IAS 28 (Amendment), Sale or contribution of assets between an investor and its associate or joint venture	To be determined
IFRS 16, *Leases*	January 1, 2019
IFRIC 23, *Uncertainty over income tax treatments*	January 1, 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position. Specifically, the Group assesses the impact of IFRS 9, IFRS 15 and IFRS 16 as follows.

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2017 (continued)

IFRS 9, Financial instruments

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, Financial instruments: Recognition and measurement. IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities. The Group expects to adopt IFRS 9 from January 1, 2018. The Group has substantially completed the assessment of the impact of the standard upon adoption and expects that the adoption of IFRS 9 will not have a significant impact on the Group's results of operations and financial position.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specifies the accounting for revenue from construction contracts. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements. Based on the preliminary assessment, the Group anticipates that the adoption of IFRS 15 in the future is unlikely to have significant impact on the recognition of service income from the provision of education and boarding services.

IFRS 16, Leases

As disclosed in Note 2(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. However, as the Group does not have any material operating lease commitment during the reporting period, the application of the new accounting model is expected to have no material impact for the Group's financial statements.

29 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(1) On January 17, 2018, Xinjiang Ronghua Education Technology Co., Ltd. ("Xinhua Xinjiang") was established in Khorgos, Xinjiang, and was wholly owned by Hong Kong Xinhua Education Limited. On February 6, 2018, Xinhua Xinjiang entered into another series of certain contracts (the "New Structured Contracts") with the PRC Operating Entities and their respective equity holders. The terms and conditions of New Structured Contracts are the same as those contained in the Structured Contracts in all material aspects, pursuant to which the Structured Contracts were automatically terminated and all economic benefits arising from the business of the PRC Operating Entities are transferred to Xinhua Xinjiang.

(2) Pursuant to the written resolutions of the shareholders passed on March 8, 2018, the directors were authorised to capitalise ("Capitalisation Issue") the amount of HK$11,999,948.28 from the amount standing to the credit of the share premium account of the Company to pay up in full at par 1,199,994,828 shares for allotment and issue to the shareholders of the Company whose names appear on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis.

(3) The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited on March 26, 2018.

30 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Company as at December 31, 2017 to be Wu Junbao Company Limited, which was incorporated in the British Virgin Islands.

DEFINITION

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

"American College"	Xinhua American College, a private higher education institution established by our Group in the State of Florida, US and obtained the provisional license dated December 27, 2017 to offer post secondary programs
"Anhui Education Department"	Department of Education of Anhui Province (安徽省教育廳)
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company conditionally adopted on March 8, 2018 and effective upon the Listing Date, and as amended from time to time
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Business Cooperation Agreement"	the business cooperation agreement entered into by and among Xinhua Anhui, the PRC Consolidated Affiliated Entities and the Registered Shareholders dated October 31, 2017
"Business Day" or "business day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"Capitalization Issue"	the issue of 1,199,994,828 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed "Appendix VI – Statutory and General Information – A. Further Information about Our Company – 4. Written resolutions of the then shareholders of our Company passed on March 8, 2018"
"China" or "PRC"	the People's Republic of China excluding for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region and Taiwan
"CIE"	Commission for Independent Education, which is established in the Florida Department of Education
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time
"Company" or "China Xinhua Group"	China Xinhua Education Group Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange

DEFINITION

"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of our Company, namely WJB Company and Mr. Wu
"CG Code"	the Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"Deed of Non-competition"	a deed of non-competition dated March 8, 2018 entered into by our Controlling Shareholders in favor of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding the non-competition undertaking
"Director(s)"	the director(s) of the Company
"Directors' Powers of Attorney"	the school sponsor appointed director's power of attorney executed by each of the directors appointed by the School Sponsor of each PRC Operating School dated October 31, 2017
"Draft Foreign Investment Law"	the draft version of the Foreign Investment Law* (中華人民共和國外國投資法（草案徵求意見稿)) issued by the MOFCOM on January 19, 2015 for public consultation
"Equity Pledge Agreement"	the equity pledge agreement entered into by and among the Registered Shareholders, Xinhua Group and Xinhua Anhui dated October 31, 2017
"Exclusive Call Option Agreement"	the exclusive call option agreement entered into by and among Xinhua Anhui, our PRC Consolidated Affiliated Entities and the Registered Shareholders dated October 31, 2017
"Exclusive Technical Service and Management Consultancy Agreement"	the exclusive technical service and management consultancy agreement entered into by and among Xinhua Anhui and our PRC Consolidated Affiliated Entities dated October 31, 2017
"FIE"	foreign invested enterprise
"Foreign Investment Catalog"	the Guidance Catalog of Industries for Foreign Investment (《外商投資產業指導目錄(2017)》), which was promulgated jointly by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會*) on July 28, 2017 and became effective from July 28, 2017, which is amended from time to time

DEFINITION

"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company
"Frost & Sullivan Report"	an independent market research report dated March 14, 2018, commissioned by our Company on the PRC private education market and prepared by Frost & Sullivan
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group", "we", "our" or "us"	the Company and its subsidiaries
"HK$", "Hong Kong dollar(s)", "HKD" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange", "Stock Exchange" and "HKSE"	The Stock Exchange of Hong Kong Limited
"Huayuan Partnership"	Hefei Huayuan Equity Investment Limited Partnership* (合肥華園股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC on August 11, 2017 with Mr. Wu acting as its general partner and 31 individuals acting as its limited partners, including Mr. Wu, Ms. Zhou Jiaju (spouse of Mr. Wu), Mr. Wu Shan (son of Mr. Wu), our three executive Directors (namely, Mr. Lu Zhen, Mr. Wang Yongkai and Ms. Wang Li) and 26 other employees of our Group. Huayuan Partnership is one of the Registered Shareholders and holds 3.33% equity interest of Xinhua Group
"IFRSs"	the International Financial Reporting Standard(s)
"independent college"	a bachelor-degree level higher education institution established by a public university that provides formal education in bachelor-degree level or above in association with individuals or social organisations other than governmental institutions using non-state funds
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates

DEFINITION

"Listing"	the listing of the shares on the Main Board of the Stock Exchange on March 26, 2018
"Listing Date"	March 26, 2018, the date on which the Company's Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Loan Agreement"	a loan agreement entered into by and among Xinhua Anhui, the PRC Operating Schools, and Xinhua Group dated October 31, 2017
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Wu"	Mr. Wu Junbao (吳俊保), the founder, one of the Controlling Shareholders, chairman of the Board and a non-executive Director
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People's Congress on December 29, 1993 and effective on July 1, 1994, and subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013, as amended, supplemented or otherwise modified from time to time
"PRC Consolidated Affiliated Entities"	namely, our School Sponsor and our PRC Operating Schools, each a consolidated affiliated entity of our Company
"PRC government" or "State"	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)

DEFINITION

"PRC Legal Advisors" or "PRC Legal Advisers"	Jingtian & Gongcheng, our legal advisors as to PRC Laws
"PRC Operating Schools"	our consolidated affiliated entities, namely, Xinhua University and Xinhua School
"private schools"	schools which are not administered by local, provincial or national governments
"Prospectus"	the prospectus of the Company dated March 14, 2018
"public schools"	schools administered by local, provincial or national governments
"Registered Shareholders"	the shareholders of Xinhua Group, namely Mr. Wu, Mr. Wu Di and Huayuan Partnership
"Reporting Period"	the year ended December 31, 2017
"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC
"School of Clinical Medicine"	School of Clinical Medicine of Anhui Medical University* (安徽醫科大學臨床醫學院), an independent college of Anhui Medical University established under the laws of the PRC in 2003 as further described in "Business – Planned Additional Schools – School of Clinical Medicine" in the Prospectus
"School Sponsor's and Directors' Rights Entrustment Agreement"	the school sponsor's and directors' rights entrustment agreement entered into by and among Xinhua Group, the PRC Operating Schools, the directors of each PRC Operating School and Xinhua Anhui dated October 31, 2017
"School Sponsor's Power of Attorney"	the school sponsor's power of attorney executed by the School Sponsor in favor of Xinhua Anhui dated October 31, 2017
"school year"	the school year for all of our schools, which generally starts on September 1 of each calendar year and ends on June 30 of the next calendar year
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on March 8, 2018
"Shareholders"	holder(s) of the Share(s)

DEFINITION

"Shareholders' Rights Entrustment Agreement"	the shareholders' rights entrustment agreement entered into by and among the Registered Shareholders, the School Sponsor and Xinhua Anhui dated October 31, 2017
"Shares"	ordinary share(s) of HK$0.01 each in the share capital of our Company
"Sino-Foreign Regulation"	the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條例), promulgated by the State Council in 2003 and amended on July 18, 2013
"Spouse Undertakings"	collectively, the spouse undertakings dated October 31, 2017 executed by Ms. Zhou Jiaju, the spouse of Mr. Wu, and by Ms. Wu Songping, the spouse of Mr. Wu Di, respectively
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Structured Contracts"	collectively, Structured Contracts I and Structured Contracts II
"Structured Contracts I"	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the Shareholders' Rights Entrustment Agreement, the School Sponsor's and Directors' Rights Entrustment Agreement, the School Sponsor's Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Powers of Attorney, the Loan Agreement and the Spouse Undertakings, further details of which are set out in the section headed "Structured Contracts" in the Prospectus
"Structured Contracts II"	collectively, the structured contracts dated February 6, 2018 entered into by Xinhua Xinjiang with, among others, our PRC Consolidated Affiliated Entities, the terms and conditions of which are the same as the Structured Contracts I in all material aspects
"Subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules. For the avoidance of doubt, the Subsidiaries include the PRC Operating Schools and the School Sponsor in the Prospectus
"substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. dollar(s)" or "US$" or "USD"	United States dollars, the lawful currency for the time being of the United States

DEFINITION

"WJB Company"	Wu Junbao Company Limited (吳俊保有限公司), a limited liability company incorporated under the laws of the BVI on August 18, 2017 and wholly owned by Mr. Wu and will be one of our Controlling Shareholders upon the Listing
"Xinhua Anhui"	Anhui Ronghua Education Technology Co., Ltd.* (安徽融華教育科技有限公司), a limited liability company established under the laws of the PRC on September 30, 2017, which is wholly owned by Xinhua HK
"Xinhua BVI"	Xinhua Education International Limited (新華教育國際有限公司), a limited liability company incorporated under the laws of the BVI on August 31, 2017 and a wholly-owned subsidiary of our Company
"Xinhua Education Group"	Anhui Xinhua Education Group Co., Ltd.* (安徽新華教育集團有限公司, formerly known as Anhui Xinhua Education Development Co., Ltd.* (安徽新華教育發展有限公司)), a limited liability company established under the laws of the PRC on March 30, 2004, which is owned as to 38.4% by Mr. Wu, 51.6% by relatives of Mr. Wu and 10% by two companies held by Mr. Wu and his relatives
"Xinhua Group" or "School Sponsor"	Anhui Xinhua Group Investment Co., Ltd.* (安徽新華集團投資有限公司) (previously known as Anhui Xinhua Investment Co., Ltd.* (安徽新華投資有限公司)), a limited liability company established under the laws of the PRC on September 1, 1999, which is owned as to 95.70% by Mr. Wu, 0.97% by Mr. Wu Di and 3.33% by Huayuan Company. It is the school sponsor of Xinhua University and Xinhua School, and a consolidated affiliated entity of our Company
"Xinhua HK"	Hong Kong Xinhua Education Limited (香港新華教育有限公司), a limited liability company incorporated in Hong Kong on September 8, 2017 and a wholly owned subsidiary of our Company
"Xinhua School"	Anhui Xinhua School* (安徽新華學校), a private formal secondary vocational school that obtained approval from the Anhui Education Department for its establishment on April 11, 2002, of which the school sponsor's interest is wholly owned by Xinhua Group and a consolidated affiliated entity of our Company
"Xinhua University"	Anhui Xinhua University* (安徽新華學院), a private formal higher education institution whose predecessor is Anhui Xinhua Vocational College (安徽新華職業學院) which obtained approval from The People's Government of Anhui Province (安徽省人民政府) for its establishment on June 18, 2000. The school sponsor's interest of Xinhua University is wholly owned by Xinhua Group and a consolidated affiliated entity of our Company

DEFINITION

"Xinhua US"	Xinhua Education, Inc., a company incorporated in the State of Florida of the United States, with limited liability on August 22, 2017 and a wholly-owned subsidiary of our Company
"Xinhua WFOE"	Xinhua Anhui or Xinhua Xinjiang (as the case maybe), and collectively, "Xinhua WFOEs"
"Xinhua Xinjiang"	Xinjiang Ronghua Education Technology Co., Ltd.* (新疆融華教育科技有限公司), a limited liability company established under the laws of the PRC on January 17, 2018, which is wholly owned by Xinhua HK
"Xinjiang"	Xinjiang Uygur Autonomous Region, a provincial-level autonomous region of the PRC
"Yangtze River Delta"	comprises Jiangsu, Zhejiang, Anhui and Shanghai in the PRC
"%"	percent
"2016 Decision"	the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改<中華人民共和國民辦教育促進法>的決定》) approved by the Standing Committee of the National People's Congress on November 2016, which took effect on September 1, 2017