CFCG

中國首控集團有限公司

China First Capital Group Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1269

Finance Empowers Education
Education Lights Up Future

2018 Annual Report

首控文化

The Core Cultural Concepts of CFCG


相信
Belief


溝通
Communication


感恩
Gratitude


學習
Learning

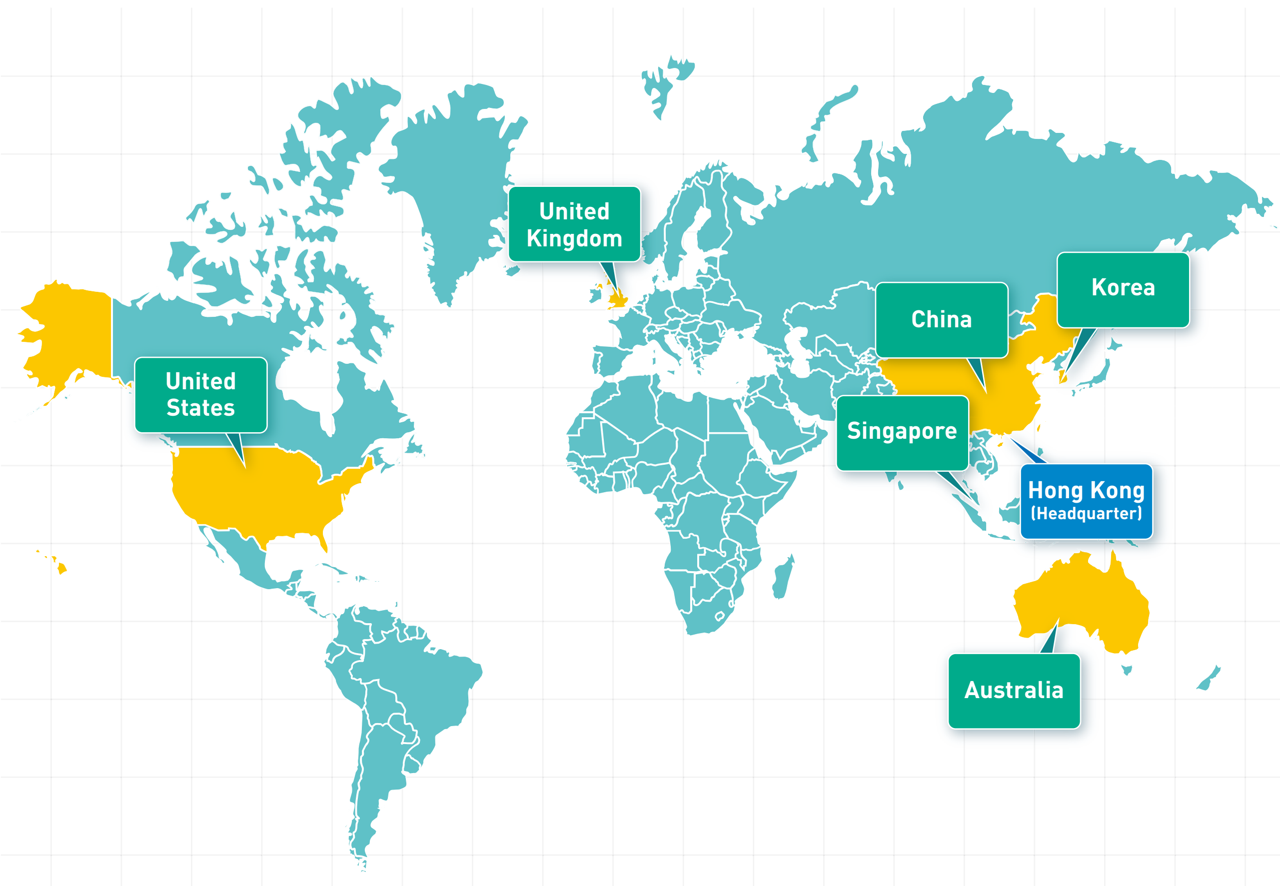

寬容
Inclusive


原則
Principle

ABOUT CHINA FIRST CAPITAL GROUP LIMITED

The Company is an investment holding company. Before 2014, the Group mainly engaged in automotive parts business. Since the end of 2014, the Group has started to set foot in the financial services business, which provides services such as dealing in securities, underwriting and placing, financing consultancy, merger and acquisition agency, financial advisory, asset management, private equity fund management, credit financing, and migration finance. Since 2016, the Group has continued to diversify its business, with a mission of "Finance Empowers Education, Education Lights Up Future" and to establish a trinitarians interactive business mode, which capitalised educational investment as base and both educational management service and educational financial service as cradles. The Group aspires to become "a globally influential financial services group focusing on education".

Educational and financial resources all around the world



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Wilson SEA *(Chairman)*
Mr. ZHAO Zhijun *(Co-Chief Executive Officer)*
Ms. LI Dan
Dr. ZHU Huanqiang+ *(Co-Chief Executive Officer)*

Non-Executive Director

Mr. LI Hua

Independent Non-Executive Directors

Mr. CHU Kin Wang, Peleus
Dr. LI Zhiqiang
Mr. WANG Song#

AUDIT COMMITTEE

Mr. CHU Kin Wang, Peleus *(Chairman)*
Mr. LI Hua
Dr. LI Zhiqiang
Mr. WANG Song#

REMUNERATION COMMITTEE

Mr. WANG Song# *(Chairman)*
Mr. ZHAO Zhijun
Ms. LI Dan
Mr. CHU Kin Wang, Peleus
Dr. LI Zhiqiang

NOMINATION COMMITTEE

Dr. Wilson SEA *(Chairman)*
Ms. LI Dan
Mr. CHU Kin Wang, Peleus
Dr. LI Zhiqiang
Mr. WANG Song#

STRATEGY COMMITTEE

Dr. Wilson SEA *(Chairman)*
Mr. ZHAO Zhijun
Dr. ZHU Huanqiang+
Dr. LI Zhiqiang
Mr. WANG Song#

RISK MANAGEMENT COMMITTEE

Dr. Wilson SEA *(Chairman)*
Dr. ZHU Huanqiang+
Mr. LI Hua
Mr. CHU Kin Wang, Peleus

COMPANY SECRETARY

Mr. HUNG Man Yuk, Dicson

AUTHORISED REPRESENTATIVES

Dr. ZHU Huanqiang+
Mr. HUNG Man Yuk, Dicson

HONG KONG LEGAL ADVISER

Loeb & Loeb LLP

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank Corporation (Nanyang Branch)

AUDITORS

Deloitte Touche Tohmatsu
Hong Kong

+ with effect from 1 February 2018
# with effect from 15 June 2018

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 4501-02 & 12-13, 45/F
The Center, 99 Queen's Road Central
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

60/F, Tower 1, Excellence Century Center
Fuhua 3rd Road, Futian District, Shenzhen

Xipingtou Industrial Park
Xichuan County, Henan Province

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586, Grand Cayman, KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

HONG KONG STOCK EXCHANGE STOCK CODE

1269

COMPANY WEBSITE

http://www.cfcg.com.hk

BUSINESS HIGHLIGHTS — FINANCIAL PERFORMANCE

Revenue

RMB **1,810.8** million

Gross Profit

RMB **505.4** million

Gross profit margin

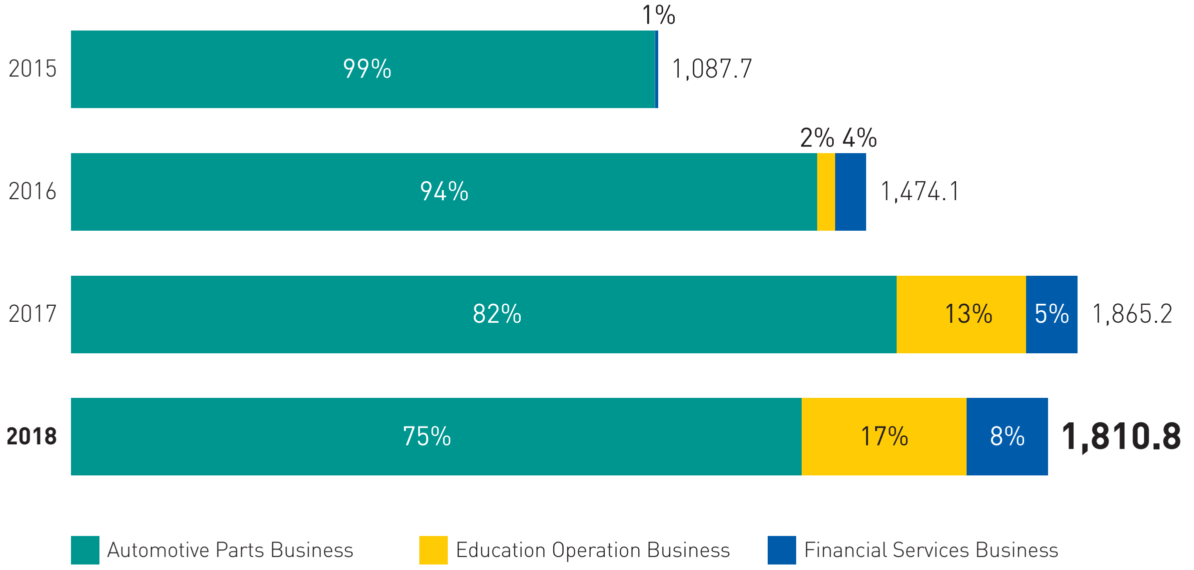
27.9%

Total assets

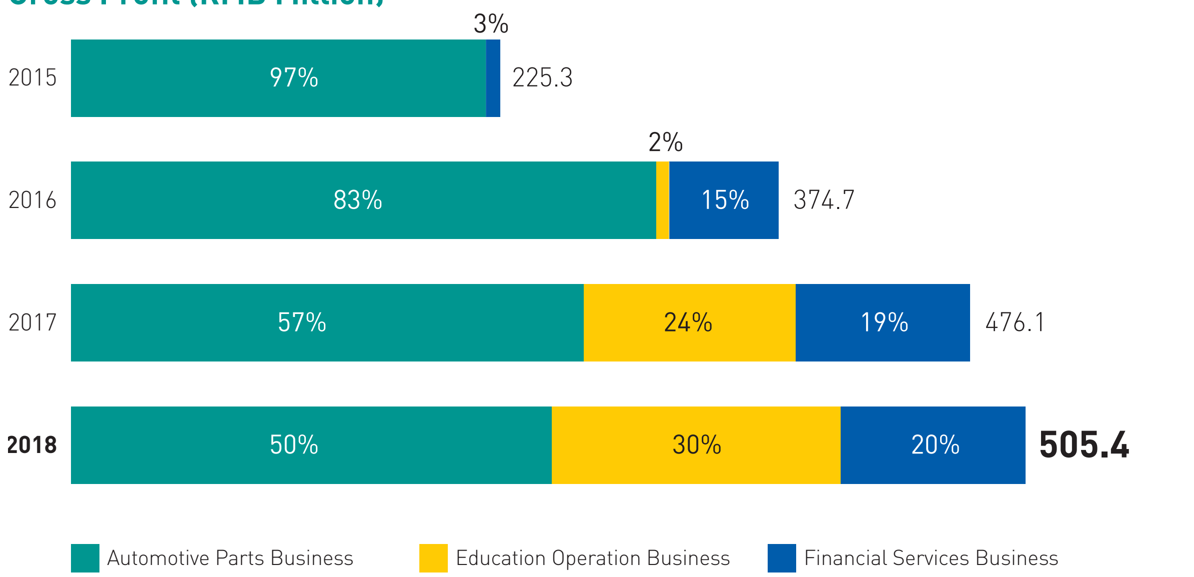
RMB **9,799.8** million

EDUCATION OPERATION BUSINESS AND FINANCIAL SERVICES BUSINESS *DEVELOPED RAPIDLY AND GREW STEADILY*

Revenue (RMB Million)



Gross Profit (RMB Million)



The number of IPO underwriting participated by FC Securities amounted to **12** for the 2018 Financial Year, of which **7** IPOs were in the education industry and **5** IPOs were in the other industry

Bloomberg's list of securities dealers in 2018 by IPO underwriting business in Hong Kong

Bloomberg

In terms of the number of underwritten projects

FC Securities ranked **21st**

In terms of the amount of IPO proceeds raised

FC Securities ranked **30th**

BUSINESS HIGHLIGHTS — MAJOR EVENTS

2018

FEB

CFCG acquired 10% shares of SJW International which owns a well-known online education brand "Siwon School" in Korea

MAR

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of China Xinhua Education Group Limited (stock code: HK.2779)

CFCG was selected as a constituent of indexes including the Hang Seng Composite Index Series

APR

FC Securities participated in the underwriting of bonds for the first time, and it acted as the joint bookrunner and the joint lead manager for the issuance of US$ senior notes of Zhongrui Industrial Group Limited

MAY

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of China 21st Century Education Group Limited (stock code: HK.1598)

CFCG was selected as a constituent of MSCI Global Standard Indexes and MSCI China All Shares Index

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of Top Education Group Ltd (stock code: HK.1752)

JUN

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of Shanshan Brand Management Co., Ltd. (stock code: HK.1749)

JUL

FC Securities acted as the joint global coordinator, the joint bookrunner, and the joint lead manager for the listing of Bojun Education Company Limited (stock code: HK.1758)

FC Securities acted as the joint global coordinator, the joint bookrunner, and the joint lead manager for the listing of Kinergy Corporation Ltd. (stock code: HK.3302)

FC Securities acted as the co-manager for the listing of BExcellent Group Holdings Limited (stock code: HK.1775)

AUG

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of Hope Education Group Co., Ltd. (stock code: HK.1765)

SEP

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of China Chunlai Education Group Co., Ltd. (stock code: HK.1969)

CFCG acquired 100% of the equity interests in Xinjiang Edukeys, the operator of PGA high school international programs

OCT

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of DaFa Properties Group Limited (stock code: HK.6111)

NOV

CFCG, MindChamps PreSchool(CNE.SI) and Phoenix Education of Phoenix TV Media Group jointly organized a preschool international forum titled "Educating for the Future – 3 Minds Movement" in Beijing

The professional streams such as preschool education and fine art applied by CFCG were selected in the corporate catalogue set by the Ministry of Education in relation to the Cooperative Education Program under Integration of Industries and Universities

DEC

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of Sichuan Energy Investment Development Co., Ltd. (stock code: HK.1713)

FC Securities acted as the joint bookrunner and the joint lead manager for the listing of Zhejiang Cangnan Instrument Group Company Limited (stock code: HK.1743)

BUSINESS HIGHLIGHTS — AWARDS

THE 13TH CAPITAL OUTSTANDING CHINA ENTERPRISE AWARDS – EDUCATION INVESTMENT BANK AWARD

Date: June 2018
Organizer: Capital Magazine
Description:
The judging panel of "The 13th Capital Outstanding China Enterprise Awards" based their appraisal on the overall performance of the enterprises for 2017-2018 in four areas including total assets value, overseas development projects and their growth potential, marketing strategy as well as research and development. The assessments took into account the evaluation results from the judging panel composed of professionals such as representatives from the commercial sector and trade associations, the committee members of Capital Magazine's editorial board, and votes cast from a public online voting platform and were validated by Baker Tilly Hong Kong, the designated auditor of the election board.

THE 21ST CHINA INTERNATIONAL EDUCATION BRAND INNOVATION SUMMIT – "2018 MOST INFLUENTIAL BRAND AMONG CHINA'S EDUCATION INVESTMENT INSTITUTIONS"

Date: August 2018
Organizer: Co-sponsored by China Education Development Union, China Education Brand Rating Committee, China Education Brand Research Institute, and the monograph on education of "Brand Information News"
Description:
China International Education Brand Innovation Summit has been successfully organized for 21 years. FC Fund was invited to deliver a monographic sharing of "The Opportunities and Challenges of the Listing of Private Eduction Institutions based on the Market Performance of Hong Kong Eduction Stocks" during the summit.

SIX AWARDS AT LACP'S 2017 VISION AWARDS — GOLD WINNER WORLDWIDE IN FINANCIAL-DIVERSIFIED SERVICES, SILVER WINNER WORLDWIDE IN EDUCATIONAL, BRONZE WINNER IN BEST REPORT FINANCIALS ASIA-PACIFIC REGION HAS BEEN SELECTED AS ONE OF THE TOP 100 REPORTS WORLDWIDE, TOP 80 REPORTS ASIA-PACIFIC REGION AND TOP 60 REPORTS CHINA

Date: July 2018
Organizer: League of American Communications Professionals ("**LACP**")
Description:
Organized by LACP and launched in 2001, the LACP Vision Awards is an internationally renowned annual report contest which aims to promote discussions on best practices in the industry, give credit to excellently produced annual reports, and demonstrate enterprises with exemplary communication capability. The judging panel assessed the reports on eight areas, namely first impression, cover design, letter to shareholders, content presentation, financial statements, creativity, clarity of access of information and convenience of access to information, in order to score annual reports with excellent performance comprehensively.

TWO AWARDS AT IADA 2018 SUMMER SEASON AWARDS

Date: August 2018
Organizer: The International Annual Report Design Awards (IADA)
Description:
The International Annual Report Design Awards of the United Kingdom is an award program that appreciates the very best aesthetic and artistic design of annual reports worldwide. The program is hosted half-yearly and is open to all creative units, such as design houses, agencies, financial printers, companies and/or organizations.

TWO AWARDS AT THE 32ND INTERNATIONAL ARC AWARDS

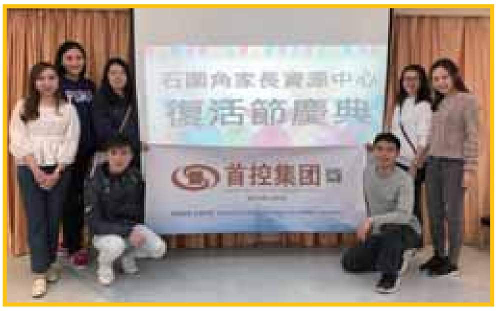
Date: September 2018
Organizer: MerComm, Inc.
Description:
The ARC Awards organized by MerComm, Inc., an independent award organization in the United States, has been organized for 32 years. It is the world's largest annual report competition attracting the participation of enterprises, small companies, government organizations, and non-profit organizations as well as organizations and individuals who engage in the production of annual reports.

BUSINESS HIGHLIGHTS — CSR EVENTS

1. CARING COMMUNITY

CFCG JOINED SAHK'S CHARITY ACTIVITIES

In 2018, the Hong Kong volunteer team of CFCG joined the "Happy Easter Gala" organized by SAHK on the eve of Easter and celebrated the festival with disadvantaged children in Tsuen Wan district of Hong Kong through making festive handicraft items, decorating Easter eggs and playing group games etc.



XISHAN SCHOOLS – CONNECTS WITH THE COMMUNITY AND ASSISTS THE POOR

Xishan Schools values the connection between students and the community, comprehensively cultivates the literacy and personality development of the students through their interaction with the community. The school organizes different types of community engagement activities for its students regularly, such as taking students to memorial mound for mourning during Ching Ming Festival, and arranging volunteer services activities in canteens, restaurants and guesthouses. The school has always cared for the health of its students and wishes that they will grow up and develop a good learning process. It has continued to assist students from families having financial difficulties and students with illnesses to get out of the woods.

2. STRENGTHENING THE COOPERATION AND EXCHANGE WITH EDUCATION INDUSTRY

CFCG CONVENED AN INTERNATIONAL EDUCATION SEMINAR IN SINGAPORE

The Group was alongside with various education institutions in Singapore to convene a seminar concerning international education, with in-depth discussion and study on the introduction, implementation, and integration of international courses in China.

CFCG PARTICIPATED IN EDUCATION TECHNOLOGY SUMMIT IN THE UNITED STATES

CFCG was invited to participate in the 2018 ASU+GSV Education Technology Summit held in the United States and to deliver a keynote speech. In addition, the Group and various education institutions and corporations from China paid a visit to certain innovative education institutions, such as AltSchool, in order to discuss the educational development model in the future.

3. SUPPORTING CULTURE DEVELOPMENT

CFCG TITLE-SPONSORED "SINGAPORE ASIA DANCE ARTS FESTIVAL"

CFCG title sponsored "Singapore Asia Dance Arts Festival", which was organized by the Asia Dance Arts Festival Committee and the International Society to Promote Cultural Exchange of Music and Dance in July 2018, attracted dance artists around the world to join the contest and perform. "Promote Dance Culture, Uphold the Belt and Road Initiative Together", the theme of this year's arts festival, has successfully facilitated extensive cultural exchange across different cultures and regions.

SUPPORTED THE INHERITANCE OF MARTIAL ARTS

Xishan Schools has always regarded martial arts and lion dances which inherited great Chinese tradition and culture as the school's featured education project. In November 2018, Jiangxi Xishan School* (江西省西山學校) organized a large-scale performance of martial arts by thousands of students, combining martial arts such as Taiji, Shaolin Boxing and Duanquan Boxing. Every student was full of energy and vitality during the show. Meanwhile, it was anticipated that the performance would bring the martial arts culture out of the campus and go aboard, allowing people around the world to experience the Chinese traditional culture.

FINANCIAL SUMMARY

A summary of the published consolidated results, assets, liabilities and non-controlling interests of the Group for the last five financial years is as follows:

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,810,797**	1,865,247	1,474,059	1,087,737	830,704
Cost of sales/services	**(1,305,351)**	(1,389,195)	(1,090,991)	(862,401)	(656,811)
Gross profit	**505,446**	476,052	383,068	225,336	173,893
Other income and expenses, other gains and losses	**735**	29,366	19,275	(7,948)	(21,149)
Impairment losses, net of reversal	**(61,303)**	4,819	(5,963)	(3,392)	4,159
Fair value changes of financial assets measured at FVTPL	**(906,072)**	(70,835)	354,894	–	–
Fair value changes of contingent consideration payables	**(251)**	–	–	–	–
Fair value changes of embedded derivative components of convertible bonds	**(5,865)**	–	–	–	–
Selling and distribution expenses	**(108,862)**	(128,600)	(97,327)	(82,575)	(46,745)
Research and development expenditure	**(48,935)**	(46,180)	(43,399)	(36,571)	(25,135)
Administrative expenses	**(386,376)**	(442,566)	(286,945)	(83,209)	(48,388)
Finance costs	**(245,815)**	(128,428)	(43,371)	(35,961)	(31,629)
Share of results of associates	**222**	1,536	–	–	–
Share of results of joint ventures	**(92,405)**	(37,801)	(4,516)	–	–
(Loss) profit before tax	**(1,349,481)**	(342,637)	275,716	(24,320)	5,006
Taxation	**(6,890)**	42,766	(87,440)	(3,390)	(2,449)
(Loss) profit for the year	**(1,356,371)**	(299,871)	188,276	(27,710)	2,557
Other comprehensive income (expense) for the year, net of income tax	**148,076**	(176,570)	5,365	1,198	(44)
Total comprehensive (expense) income for the year	**(1,208,295)**	(476,441)	193,641	(26,512)	2,513
(Loss) profit for the year attributable to:					
Owners of the Company	**(1,386,813)**	(302,169)	178,664	(22,631)	2,557
Non-controlling interests	**30,442**	2,298	9,612	(5,079)	–
	(1,356,371)	(299,871)	188,276	(27,710)	2,557

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total comprehensive (expense) income for the year attributable to:					
Owners of the Company	**(1,230,657)**	(478,487)	184,850	(21,433)	2,513
Non-controlling interests	**22,362**	2,046	8,791	(5,079)	–
	(1,208,295)	(476,441)	193,641	(26,512)	2,513
(Loss) earnings per Share – Basic# (RMB)	**(0.28)**	(0.07)	0.05	(0.01)	0.002
– Diluted (RMB)	**(0.28)**	(0.07)	N/A	N/A	N/A

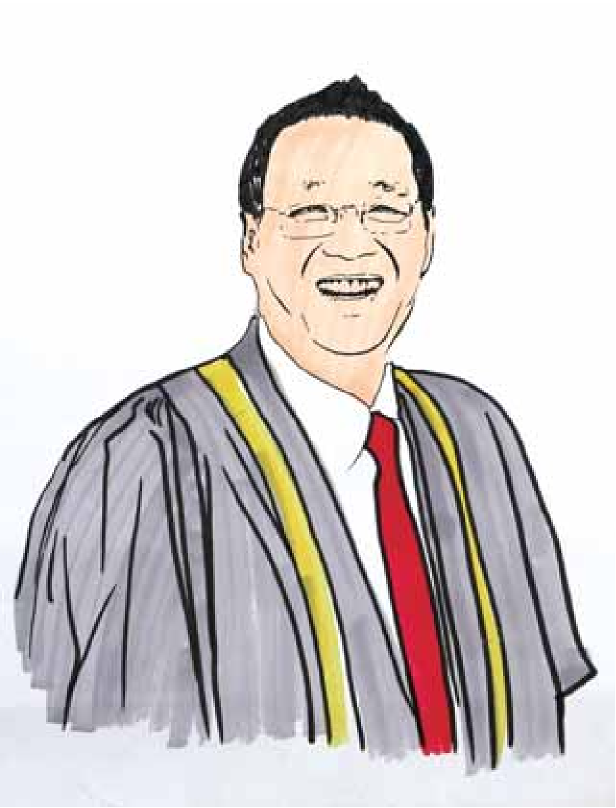
The weighted average number of ordinary Shares for the purpose of calculating the basic (loss) earnings per Share for the years prior to 2017 have been adjusted with a view to the Share Subdivision which became effective on 28 February 2017.

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**4,025,140**	3,752,666	2,551,273	707,996	677,403
Current assets	**5,774,672**	5,603,953	4,863,403	1,169,575	666,980
Total assets	**9,799,812**	9,356,619	7,414,676	1,877,571	1,344,383
Current liabilities	**(4,958,244)**	(3,282,440)	(3,393,565)	(1,046,259)	(797,127)
Total assets less current liabilities	**4,841,568**	6,074,179	4,021,111	831,312	547,256
Non-current liabilities	**(1,501,396)**	(2,612,393)	(911,279)	(77,276)	(157,882)
Owners' equity	**3,340,172**	3,461,786	3,109,832	754,036	389,374
Non-controlling interests	**577,123**	291,891	287,767	125,341	–
Equity attributable to owners of the Company	**2,763,049**	3,169,895	2,822,065	628,695	389,374

CHAIRMAN'S STATEMENT

With a mission of "Finance Empowers Education, Education Lights Up Future"

CHAIRMAN'S STATEMENT



A sketching by Ms. Lu Xiaofang,
a high school teacher of Fuqing Xishan School* (福清西山學校)

Dear Shareholders,

On behalf of the Board, I hereby present the annual report of the Group for the 2018 Financial Year.

With tremendous support from our Shareholders and fellow colleagues, the Group takes "Finance Empowers Education, Education Lights Up Future" as our mission to establish a trinitarians interactive business mode, which capitalised educational investment as base and both educational management service and educational financial service as cradles. The Group aspires to become "a globally influential financial services group focusing on education".

"Whoever you are, you have a right to learn."

Confucius

The business development strategy of the Group has obtained wide recognition from various parties. The Company has been successively selected as a constituent of various indices, including MSCI Global Standard Indexes and MSCI China All Shares Index, S&P Global BMI and S&P Global Mid Small Cap Index, FTSE Global Equity Index Series Asia Pacific ex Japan Regional Index and FTSE Emerging Markets All Cap China A Inclusion Index, BBG HKSE All, and Hang Seng Composite Index Series. It was also advanced into the list of eligible securities for "Southbound Trading" under "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect".

In 2018, the development of China education industry had become a major concern. More attentions were paid to quality literacy education, entire process education, and entire people education, the demand of high-quality educations continues to grow. Education-related policies have been released or consulted for the purpose of encouraging social forces to invest in education, bringing opportunities of long-term development to enterprises which are passionate in education. In line with the trend of the tightening policy, the Group switched the orientation of its development strategy from investment and merger and acquisition to management improvement. Its development model has been changed from external expansion to endogenous growth, with an emphasis on quality literacy education, featuring K-12 education, media arts education as well as international education for the purpose of establishing its core business model. The Group optimised its allocation of education assets, promoted project synergy and integration in respect of curriculums, teachers, brands and operation, and it explored the potentiality of education assets and enhanced their intrinsic value to establish its core competitiveness.

During the year under review, the Group explored and invested in high-quality educational projects in China and overseas. It acquired 10% of the total issued shares of SJW International and 100% of the equity interest in Xinjiang Edukeys. At the same time, the Group actively integrated high-quality educational resources in China and overseas, adapted to the educational market demands and promoted cooperation and resources sharing of education projects in order to empower the industry. The educational projects invested by the Group had been actively developed its featuring education such as, football, martial arts, sports, and fine arts, which improved both the scale and quality of the educational projects.

Leveraged on the strategic presence in the entire education industry chain and the advantage of its diversified financial licences and consummate financial services system, the Group provided various educational entities with featured, differentiated and professional financial services, and the coverage areas are preschool education, K-12 education, higher education, vocational education, and extracurricular training. In addition, leveraging on the high brand recognition and market influence resulted from its outstanding performance in the education finance sector, the Group actively explored business opportunities in other sectors and has attained outstanding performance. In 2018, FC Securities ranked twenty-first on Bloomberg's list of securities dealers by IPO underwriting business in Hong Kong in terms of the number of underwritten projects, and it ranked thirtieth in terms of the amount of IPO proceeds raised.

For automotive parts business, faced with the recession in automobile industry and increasingly fierce market competition, the Group implemented effective development strategies. It exerted its advantages on existing brand and technologies to achieve higher level of product R&D and quality control as well as to establish efficient and productive factories. While consolidating the existing markets, it also deeply explored the potentiality of the market in order to explore new markets, and it controlled the operating costs effectively through measures of procurement prices and cost reduction.

Looking ahead into 2019, we can see both opportunities and challenges. The Group will commit to the original thoughts of "Whoever you are, you have a right to learn" and "Everyone can become a successful man". Leveraging on its reservoir of educational talents, project investment experience, experience of management of physical schools and innovation of business models as well as brand recognition and market influence in the education finance sector, the Group will incorporate advanced educational concepts and methods into its international insight, allocate quality eastern and western educational resources, support holistic education and elite education for the general public, and light up the journey of success for every child. Meanwhile, the Group will focus on educational financial services and build a boutique education investment bank with distinctive characteristics.

In this new year, we are full of confidence and anticipation. We hope to move forward with our Shareholders, business partners and fellow colleagues while making concerted and innovative efforts in order to lead the Group to a new journey and breakthroughs. The Group will turn a new page with a fresh start in 2019.

Wilson SEA
Chairman and Executive Director
29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

With a vision to become "A globally influential financial services group focusing on education"

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The Company is an investment holding company. Before 2014, the Group mainly engaged in automotive parts business. Since the end of 2014, the Group has started to set foot in the financial services business, which provides services such as dealing in securities, underwriting and placing, financing consultancy, merger and acquisition agency, financial advisory, asset management, private equity fund management, credit financing, and migration finance. Since 2016, the Group has continued to diversify its business, with a mission of "Finance Empowers Education, Education Lights Up Future" and to establish a trinitarians interactive business mode, which capitalised educational investment as base and both educational management service and educational financial service as cradles. The Group aspires to become "a globally influential financial services group focusing on education".

"Education is not for the past or the present, but specifically for the future."

Cai Yuanpei

The Company is now a constituent of various indices, including MSCI Global Standard Indexes and MSCI China All Shares Index, S&P Global BMI and S&P Global Mid Small Cap Index, FTSE Global Equity Index Series Asia Pacific ex Japan Regional Index and FTSE Emerging Markets All Cap China A Inclusion Index, BBG HKSE All, and Hang Seng Composite Index Series. It was also advanced into the list of eligible securities for "Southbound Trading" under "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect".

The business development strategy of the Group has obtained wide recognition from various parties. In June 2018, the Company was awarded "The 13th Capital Outstanding China Enterprise Awards – Education Investment Bank Award" by Capital Magazine. In August 2018, FC Fund, a subsidiary of the Company, won the award "2018 Most Influential Brand Among China's Education Investment Institutions" at the 21st China International Education Brand Innovation Summit. In addition, after garnering a total of seven international awards at the 2016 Vision Awards, the 2017 Galaxy Awards and the 31st International ARC Awards for its 2016 annual report, the Group won six awards at the 2017 Vision Awards hosted by the League of American Communications Professionals LLC (LACP) for its 2017 annual report, including the Gold Winner Worldwide in the Financials-Diversified Services category and the Top 100 Reports Worldwide, and it received four other awards at the 32nd International ARC Awards organized by MerComm, Inc. and the IADA 2018 Summer Season selection organised by The International Annual Report Design Awards (IADA).

BUSINESS REVIEW

Education Operation Business

Education serves as the foundation of national development in the long run. Education and technology remain as the main forces to push forward the advancement of both the history and society throughout. With the growing per capita disposable income of citizens in Mainland China, the growing population of middle class, and family structure at a younger age, the concepts of "Lifelong education" and "Education for all" are gaining popularity among people. The development of society and economy and the application of artificial intelligence have led to increasing competition among talents. The demand for raising the competitiveness of employment has promoted the development of education. Apart from this, with the "Universal Two-child Policy" implemented across the country, the huge population base and demographic dividend derived from national childbirth encouragement have resulted in continuous rigid demand for quality education. Education-related policies such as "Several Opinions of the CPC Central Committee and the State Council on Further Reform, and Well-regulated Development of Preschool Education" and "The Implementing Regulations of the Private Education Promotional Law of the People's Republic of China (Revised Draft) (Draft for Review)" have been released or consulted for the purpose of encouraging social forces to invest in education, while regulating "excessive pursuit of profit" by education enterprises, so that they can get back to the original thought of education, which in turn promote the healthy development of the private education sector and bring opportunities of long-term development to enterprises which are passionate in education.

As a result, during the year under review, the Group actively seized development opportunities in the education industry. In line with the trend of the tightening policy, the Group switched the orientation of its development strategy from investment and merger and acquisition to management improvement. Its development model has been changed from external expansion to endogenous growth. The Group emphasised on quality literacy education, featuring K-12 education, media arts education as well as international education for the purpose of establishing its core business model. The Group optimised its allocation of education assets, promoted project synergy and integration in respect of curriculums, teachers, brands, and operation, and it explored the potentiality of education assets and enhanced their intrinsic value to establish its core competitiveness.

During the year under review, the Group explored and invested in high-quality educational projects in China and overseas. In January 2018, the Company announced to acquire 10% of the total issued shares of SJW International, SJW International owns a well-known online education brand "Siwon School" in Korea, and its core businesses include providing basic adults English courses, online children English courses, as well as Chinese, Japanese and Spanish video language courses. In August 2018, the Group announced to acquire 100% of the equity interest in Xinjiang Edukeys. Currently, Edukeys Group mainly operates the PGA (Project of Global Access) high school international program, which is a series of international programs based on the features of high school education in China to formulate, that suits Chinese students, and it has operated throughout 18 middle schools in China.

During the year under review, the Group actively integrated high-quality educational resources in China and overseas, adapted to the educational market demands and promoted cooperation and resources sharing of education projects in order to empower the industry. In January 2018, the Group was alongside with various education institutions in Singapore to convene a seminar concerning international education, with in-depth discussion and study on the introduction, implementation, and integration of international courses in China. In May 2018, the Group was invited to join the 2018 ASU+GSV Education Technology Summit held in the United States and to deliver a keynote speech. In addition, the Group and various education institutions and corporations from China paid a visit to certain innovative education institutions, such as AltSchool in order to discuss the educational development model in the future. In June 2018, the Company announced to subscribe for 29,400,000 new shares of KSI Education Ltd ("**KSI Education**"), representing approximately 49.0% of its enlarged total issued shares to engage in exploring, cultivating, investing and operating global high-quality education resources (the United Kingdom in particular) and to adapt such resources to China's education market.

In November 2018, the Group, MindChamps PreSchool Limited (a company listed on the Main Board of SGX, stock code: CNE), the largest operator and franchisor of premium range preschool centres in Singapore, and Phoenix Education of Phoenix TV Media Group jointly organized a preschool international forum titled "Educating For the Future – 3 Minds Movement" in Beijing, which discussed how to cultivate children's mindsets of learning, creation, and championship through scientific teaching methods and approaches so that children can learn to live happily in the era of artificial intelligence.

During the summer break of 2018, the Group organized several summer camps. In the "2018 KSI – A Different Summer for Youngsters" Summer Camp, Chinese students were led through a study tour in London to experience native English education and pure English learning environment. In the "2018 Childhood Happy Camp – International Summer School" Summer Camp, the teaching teams of AltSchool and High Tech High, two innovative schools from the United States, were introduced to Chinese students about the overseas popular teaching concepts and methods, namely "Science, Technology, Engineering, Mathematics Teaching Method" (STEM) and "Project-Based Learning" (PBL). In the "Experience and Growth" First Capital – Xishan Summer Camp and the "Come to Xishan, Brighten the Future" Summer Camp, featuring activities such as martial arts training and football training were organized, allowing children to experience the culture and learning atmosphere of Xishan school.

In order to improve the quality of undergraduate talents and to intensify the integration of industries and education as well as the cooperation between universities and enterprises, the Ministry of Education organised and established the Cooperative Education Program under Integration of Industries and Universities* (產學結合協同育人項目). In November 2018, the professional streams such as preschool education and fine art applied by the Group were selected in the corporate catalogue set by the Ministry of Education in relation to the Cooperative Education Program under Integration of Industries and Universities. This will facilitate the development of higher education in terms of teaching materials, teacher qualifications, systems integration, and infrastructure construction in order to nurture versatile "neo-liberal arts" talents. The Group also offered a series of lectures, the "CFCG Lectures", to coach the students of Henan University of Economics and Law the understanding and practical application of professional knowledge from the perspective of enterprise practice.

The Group also strengthened the operations management of its invested educational projects and actively developed its featuring education such as, football, martial arts, sports, and fine arts, which improved both the scale and quality of the educational projects. The women's football team in the primary school of Fuqing Xishan School*(福清西山學校) won the championship of the five-a-side football match (primary school) of the 2018 Fujian Youth "Future Star" Sunshine Sports Games, while its men's football team of the middle school won the first prize of 2018 Fujian Youth Campus Football League and High School Football Tournament (middle school). Jiangxi Xishan School* (江西省西山學校) attained outstanding results in teenage football, P.K.O, and dragon dance at the 15th Jiangxi Provincial Sports Competition. Singapore Raffles Music College was granted the four-year EduTrust Certificate of the Committee for Private Education in Singapore. It cooperated with the University of West London to offer courses, and the diploma issued by the University of West London is recognised by the Chinese Service Center for Scholarly Exchange of the Ministry of Education and was included in the range of foreign degrees verification in January 2019.

Financial Services Business

The Group has obtained diversified financial services licences and established a consummate financial services system, thus its financial services business grew rapidly. The Group has established FC Financial Group to centralise the management and to cooperate the businesses of FC Securities, FC Asset Management, and FC International Finance.

FC Securities was licensed to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO. In addition to dealing in securities and providing margin financing business to customers, it also engaged in underwriting and placing of shares for listed companies and listing applicants. FC Asset Management was licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO. It can provide portfolio management services (such as stocks, bonds, discretionary accounts, and funds) and investment advisory services to its clients. FC International Finance was licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO. It can also advise on matters in relation to the "Codes on Takeovers and Mergers and Shares Repurchase" issued by the SFC. Stirling Coleman was licensed by the Monetary Authority of Singapore to conduct regulated activities in relation to securities trading and advising on corporate finance in Singapore, it can provide diversified corporate financing services. First Capital Finance Limited holds a money lender's license. It can carry out the

business of money lenders under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). FC Fund and its several subsidiaries have been registered as private equity fund managers with the Asset Management Association of China, which allows them to initiate establishment of or be entrusted for the management of private equity investment funds. First Capital International Holdings Limited engages in international education, study abroad planning, migration advisory, and overseas property purchasing services, it provides professional solutions to customers in relation to migration financing and global asset allocation.

Leveraged on the Group's strategic presence in the entire education industry chain, the Group empowered education by its financial services business and capitalised on a number of financial means and financial instruments to provide various educational entities with featured, differentiated, and professional financial services systematically and continuously. From the commencement date of operation of FC Securities, 2 February 2016, to 31 December 2018, a total of fourteen education enterprises have been listed through IPO on the Main Board of the Stock Exchange, FC Securities participated in the underwritings of ten of those, the coverage is more than 70%, and the coverage areas are preschool education, K-12 education, higher education, vocational education, and extracurricular training.

During the year under review, FC Securities successively acted as (i) the joint global coordinator, the joint bookrunner, and the joint lead manager for the listing of Bojun Education (a company listed on the Main Board of the Stock Exchange, stock code: 1758); (ii) the joint bookrunner and the joint lead manager for the listing of China Xinhua Education Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 2779), Top Education Group Ltd (a company listed on the Main Board of the Stock Exchange, stock code: 1752), China 21st Century Education Group Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1598), Hope Education Group Co., Ltd. (a company listed on the Main Board of the Stock Exchange, stock code:1765), and China Chunlai Education Group Co., Ltd. (a company listed on the Main Board of the Stock Exchange, stock code: 1969); and (iii) the co-manager for the listing of BExcellent Group Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 1775). Under the management of FC Asset Management, First Capital Education Selected Fund targets to invest in stocks and bonds in the education industry, and it has been operated well during the year under review.

FC Fund and its subsidiaries initiated the establishment of private equity investment funds with a focus on exploring, investing, and operating quality education projects. Among them, Wuxi Guolian First Capital Equity Investment Fund Center (Limited Partnership)* (無錫國聯首控股權投資基金中心(有限合夥)) ("**FC Guolian**") invested in Bojun Education in 2016. Bojun Education operates preschools, middle schools, and high schools in Sichuan Province. In terms of student enrollment of middle schools and preschools in the 2017/2018 school year, Bojun Education ranked second in the private middle school education industry and ranked fifth in the private preschool education industry in Chengdu. In July 2018, Bojun Education was listed on the Main Board of the Stock Exchange. As of 31 December 2018, FC Guolian held 150 million shares of Bojun Education, representing approximately 18.21% of its total issued shares. During the year under review, FC Guolian sold Shenzhen Meten International Education

& Technology Co,. Ltd.* (深圳市美聯國際教育科技有限公司) ("**Meten English**"), which was invested in 2016, at a consideration of approximately two times of the initial investment amount. Meten English primarily engages in the provision of experiential English language training, including English quality education for adults, applied English education for youth, online English learning, and English trainings for companies and groups. Sub-fund No.1 of Chongqing First Capital Cultural Investment Equity Investment Fund (Limited Partnership)* (重慶首控文投股權投資基金合夥企業(有限合夥)1號子基金) ("**Sub-fund No.1 of FC Wentou**") invested in Xinjiang Edukeys in 2017 and held 65% equity interest of such. In August 2018, the Group acquired 100% of the equity interest in Xinjiang Edukeys held by Sub-fund No. 1 of FC Wentou, Mr. Wei Wei, and Ms. Zhao Huiwen (collectively, the "**Edukeys Vendors**").

Leveraged on the advantages of the Group on its diversified financial licences and consummate financial services system as well as high brand recognition and market influence resulted from its outstanding performance in the education finance sector, the Group's financial services business achieved outstanding performance in other sectors side by side. In 2018, FC Securities ranked twenty-first on Bloomberg's list of securities dealers by IPO underwriting business in Hong Kong in terms of the number of underwritten projects, and it ranked thirtieth in terms of the amount of IPO proceeds raised.

Apart from participating in the listing underwriting of education projects, during the year under review, FC Securities successively acted as (i) the joint global coordinator, the joint bookrunner, and the joint lead manager for the listing of Kinergy Corporation Ltd. (a semiconductor chips related equipment design manufacturer, and a company listed on the Main Board of the Stock Exchange, stock code: 3302); and (ii) the joint bookrunner and the joint lead manager for the listing of DaFa Properties Group Limited (a real estate developer and a company listed on the Main Board of the Stock Exchange, stock code: 6111), Sichuan Energy Investment Development Co., Ltd. (an integrated power service provider and a company listed on the Main Board of the Stock Exchange, stock code: 1713), Zhejiang Cangnan Instrument Group Company Limited (a gas flowmeter manufacturer and a company listed on the Main Board of the Stock Exchange, stock code: 1743), and Shanshan Brand Management Co., Ltd. (a brand operator engaged in the design, marketing and sales of formal and casual business menswear and a company listed on the Main Board of the Stock Exchange, stock code: 1749). FC Asset Management issued the First Capital Multi-Series Fund SPC in August 2018, which adopted diverse and flexible investment strategies to invest in secondary market's stocks and explored opportunities for IPO investment in order to achieve the goal of medium to long-term capital appreciation.

During the year under review, FC Securities participated in the underwriting of bonds for the first time, and it acted as the joint bookrunner and the joint lead manager for the issuance of US$ senior notes of Zhongrui Industrial Group Limited. Stirling Coleman successively served as (i) the coordinator and the financial advisor for the issuance of US$ convertible bonds of Sunpower Group Ltd. (a company listed on the Main Board of SGX, stock code: 5GD); (ii) the sole coordinator of Universal Engeisha Co., Ltd. (a company listed on the Main Board of Tokyo Stock Exchange, stock code: 6061) in a merger and acquisition transaction; (iii) the joint financial adviser of the acquirer, Weiye Holdings Limited (a company listed on the Main Board of SGX, stock code: BMA and the Main Board of the Stock Exchange, stock code: 1570), for conditional cash acquisition and delisting; and (iv) the financial adviser of the buyer, Japan System Techniques Co., Ltd. (a company listed on the First Section of Tokyo Stock Exchange, stock code: 4323), in acquisitions of the equity interest in target companies.

Automotive Parts Business

During the year under review, the economic growth of China slowed down. The preferential policy on vehicle acquisition tax was completely withdrawn, and the overall performance of the automobile market was sluggish. According to the statistics of China Association of Automobile Manufacturers, the production of automobiles in 2017 was 29,015,400, whereas in 2018 was 27,809,200, representing a year-on-year decrease of approximately 4.16%, and the sales of automobiles in 2017 was 28,877,900, while in 2018 was 28,080,600, representing a year-on-year decrease of approximately 2.76%.

Faced with the recession in automobile industry and increasingly fierce market competition, the Group's automotive parts business exerted its advantages on existing brand and technologies to achieve higher level of product R&D and quality control as well as to establish efficient and productive factories. While consolidating its existing markets, it also deeply explored the potentiality of the market in order to explore new markets, and it controlled the operating costs effectively through measures of procurement prices and cost reduction.

During the year under review, the Group operated its automotive parts business by adhering to the principle of "Developing the Market, Focusing on Quality, Improving R&D, and Strengthening Management", and implemented the Amoeba Management Model by practicing the concept of "Everyone is an Operator" in stages. The Group manufactured approximately 9.76 million shock absorbers of different types, and it managed to develop new markets, such as Geely, Dongfeng Renault, and Shanghai Volkswagen (and became one of the major suppliers of JAC Motors). The Group also completed new product researches of shock absorbers for SAIC EP22, SGMW CN180N, HAIMA AB03, and ZOTYE M12E, and it was honored as the Excellent Spare and Accessory Parts Supplier by FAW Haima Automobile Co., Ltd.* (一汽海馬轎車股份有限公司). The Group has completed the building of a digitised workshop for smart manufacturing of shock absorbers, thus the smart manufacturing level has been improved significantly.

OUTLOOK

Education Operation Business

The human history has undergone stages of competition, such as over population, resources, and power, over technologies, economies, and industries, and over finance and information. In the future, such competition will be over culture, civilization, and education. Competition gives birth to the exchange, understanding, integration, and coexistence of different cultures and civilizations. Not only can competition resolve the differences and conflicts among different cultures and civilizations, but it can also realize virtual cooperation and development among different countries or ethnic groups and between the rich and the poor. Education is the driving force of social development, "Education Lights Up Future", education creates harmony, and education contributes to a better life for mankind.

Mr. Cai Yuanpei, a renowned educationist in modern China, once said, "Education is not for the past or the present, but specifically for the future". As society develops, and the demand for education continues to grow, consumers of education no longer regard further education and employment as the sole measurement of education quality, but they pay more attention to quality literacy education, entire process education, and entire

people education, and they have emphasized more on the holistic development of educatees. In September 2017, the Ministry of Education issued the "Curriculum Guidelines on Integrated Practical Activities in Primary and Secondary Schools"* (《中小學綜合實踐活動課程指導綱要》). It oriented towards nurturing students' overall quality, the guidelines focus on developing core literacy, particularly social responsibility, innovative spirit, and practical ability in order to adapt to the needs of a fast-changing society life, workforce spheres, and personal development as well as to embrace the challenges of the information age and the knowledge society. In April 2018, the Ministry of Education published the "Artificial Intelligence Innovation Action Plan for Institutes of Higher Education"* (《高等學校人工智能創新行動計劃》), which pointed out that intelligent technology helps innovating talent training models, reforming teaching methods, improving educational governance abilities, and builds an smart, network-based, personalized, and lifelong education system. It is also an important means for promoting balanced education development and education equality and improving the quality of education.

Confucius said that "Whoever you are, you have a right to learn" (有教無類). Everyone can receive education and become a successful man. Education focuses on the future, and quality education should never be a luxury. Every educatee should have equal opportunities to enjoy quality education. The Group commits to the original thoughts of "Whoever you are, you have a right to learn" and "Everyone can become a successful man", with the mission of "Finance Empowers Education, Education Lights Up Future", the Group incorporates advanced educational concepts and methods into its international insight, allocates quality eastern and western educational resources, achieves capital empowerment and value creation of industries, and supports holistic education and elite education for the general public in order to offer elite education to every family and child and light up the journey of success for every child.

Looking ahead into 2019, the Group will leverage on its reservoir of educational talents, project investment experience, experience of management of physical schools, and innovation of business models to actively seize market opportunities, especially the new opportunities in business development brought by classified management, well-regulated development as well as diversification and integration of the private education industry. By doing so, the Group will further expand its presence across the global education market and develop new business type by creatively integrating different forms of educational resources. The Group will also be engaged in scientific and efficient operations management to achieve business restructuring, endogenous growth, and value appreciation, and it is committed to become an operation service professional in the education industry with the best knowledge in finance.

The Group will actively engage in quality literacy education focusing on STEM education and attempt integration with quality educational resources in China and overseas to create featuring brands on football and martial arts. The Group will also capitalize on its edge in the area of ethnic art education to develop a new business type providing education services on art and design, that features media art and integrates the operations of asset-light and asset-heavy models. Based on the brand and market influence of Edukeys Group in the PGA program, the Group introduces quality international educational resources as supplement to build a service platform for expanding its international education business. At the same time, the Group will also push forward the exploration and implementation in vocational education, early childhood education, and preschool education as well as the integration of industries and education.

Financial Services Business

In 2018, Hong Kong was once again become one of the world's most active IPO markets. There was a total of 206 companies listed on the Stock Exchange in that year, raising a total amount of approximately HK$287.88 billion. Both the number of listed companies and the amount of raised funds ranked first in the world, reflecting Hong Kong's solid position as an international financial center. The Stock Exchange sustains its efforts of establishing an integrated platform to connect markets across the border. In April 2018, the Stock Exchange announced a reform of its listing system allowing companies to be listed on the Stock Exchange in the form of "Weighted Voting Rights" (WVR). This enables Hong Kong market to attract more new-economy and innovative-concept enterprise of various types. The "Shanghai-Hong Kong Stock Connect", the "Shenzhen-Hong Kong Stock Connect", and the "Bond Connect" were launched successively in recent years. The daily quotas under both the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect have been quadrupled from 1 May 2018. China A-shares have been included into the MSCI indexes and the FTSE Russell indexes, which have played a prominent role in attracting international investors to invest in China's A-share market. The above measures and actions fulfill the demand for overseas asset allocation among Mainland investors, whereas they offer foreign investors an easier way to access the Mainland capital market, which in turn will lead to further opening-up and internationalization of the Mainland capital market.

The Group has obtained diversified financial licences and established a consummate financial services system. With its outstanding performance in the education finance sector, the Group's financial service business has framed a high recognition brand and market influence. Looking ahead into 2019, the Group will leverage on its presence across the entire education industry chain and make FC Financial Group business-oriented, each business unit will work closely together by adhering to the path of differentiation and characteristic and upholding the operational philosophy and thought of education investment bank. The Group will seek to unleash the synergy between its financial services business and education operation business and will feature on educational financial services with other industries as complement in order to commit to becoming an investment banking professional who knows education the best.

The "Belt and Road" initiative of China has opened a window of opportunities and has become a new platform for international cooperation. In response to the "Belt and Road" initiative, the Group has expanded its financial services platform to cover regions beyond China and Hong Kong. The Group will get into Singapore's capital market quickly through its subsidiary, Stirling Coleman, as a direct platform. The Group is actively applying to engage as a sponsor to further expand its business scope in order to realise a comprehensive investment banking business model with the synergy of investment banking, securities, asset management, and research and the collaboration of China, Hong Kong, and Singapore for the purpose of providing customers with systematic and packaged financial solutions and lifelong companion services.

Automotive Parts Business

According to the statistic of the China Association of Automobile Manufacturers, both production and sales of automobile have continued the downward trend, representing a year-on-year decrease of 14.08% and 14.94% respectively, from January to February 2019. The development of the automobile and automotive parts industries will face greater challenges. The Group will implement effective development strategies for its automotive parts business to promote the development of this business segment.

The Group's automotive parts business will continue to aim for "Top Quality and Customer Satisfaction". By means of implementing the Amoeba Management Model and establishing the appraisal system of "Focus on Process and Results", it will keep on strengthening the implementation of its quality system and improving the product quality and customer satisfaction. The Group will continue to exert its advantage on existing brand and technologies. While consolidating the existing markets, the Group will also establish an after-sales marketing department and an international business department to open up the after-sales market and international market.

The Group regards the construction of R&D capability as its core work. It strives to build the two R&D centers in Italy and Nanyang into first-class R&D bases by equipping them with advanced experimental and testing equipment and excellent design technologists. It implements the technical management concept of "Utilisation, R&D and Reserve" in order to boost its reserve, market promotion, and application of new technologies. A digitised workshop for smart manufacturing of shock absorbers of the Group has been built and in use in order to lay a foundation for developing high-end customers. The Group also plans to set up a production line for solenoid valves shock absorbers in order to achieve the industrialized conversion of new technologies of shock absorbers.

The Group will further strengthen the reform of its performance remuneration system and personnel system by fully demonstrating the principle of "The harder and better you work, the more you will get", and establishing a dynamic elimination mechanism to further facilitate the swap and promotion of staff in order to stimulate their initiative in full swing.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2018, the Group's overall revenue decreased by approximately 2.9% to approximately RMB1,810.8 million from approximately RMB1,865.2 million in 2017, of which revenue from automotive parts business decreased by approximately 11.5% to approximately RMB1,353.9 million from approximately RMB1,530.2 million in 2017, revenue from financial services business increased by approximately 57.2% to approximately RMB150.3 million from approximately RMB95.6 million in 2017, and revenue from education operation business increased by approximately 28.1% to approximately RMB306.6 million from approximately RMB239.4 million in 2017. The decrease in revenue was mainly due to the decrease in sales of automotive parts business.

Cost of sales/services

For the year ended 31 December 2018, the Group's overall cost of sales/services decreased by approximately 6.0% to approximately RMB1,305.4 million from approximately RMB1,389.1 million in 2017, of which cost of sales from automotive parts business decreased by approximately 12.7% to approximately RMB1,099.3 million from approximately RMB1,258.7 million in 2017, cost of services from financial services business increased by approximately 1,490.9% to approximately RMB52.5 million from approximately RMB3.3 million in 2017, and cost of services from education operation business increased by approximately 20.9% to approximately RMB153.6 million from approximately RMB127.1 million in 2017. The decrease in cost of sales/services was mainly due to the decrease in sales of automotive parts business.

Gross profit

For the year ended 31 December 2018, the Group's overall gross profit increased by approximately 6.2% to approximately RMB505.4 million from approximately RMB476.1 million in 2017, of which gross profit from automotive parts business decreased by approximately 6.2% to approximately RMB254.6 million from approximately RMB271.5 million in 2017, gross profit from financial services business increased by approximately 6.0% to approximately RMB97.8 million from approximately RMB92.3 million in 2017, and gross profit from education operation business increased by approximately 36.2% to approximately RMB153.0 million from approximately RMB112.3 million in 2017. The increase of gross profit was mainly due to the rapid development of education operation business.

Gross profit margin

For the year ended 31 December 2018, the Group's overall gross profit margin increased by approximately 2.4 percentage points to approximately 27.9% from approximately 25.5% in 2017, of which gross profit margin for automotive parts business increased by approximately 1.1 percentage points to approximately 18.8% from approximately 17.7% in 2017, gross profit margin for financial services business decreased by approximately 31.4 percentage points to approximately 65.1% from approximately 96.5% in 2017, and gross profit margin for education operation business increased by approximately 3.0 percentage points to approximately 49.9% from approximately 46.9% in 2017. The increase in gross profit margin was mainly due to the increase in proportion of financial services business and education operation business (which have higher gross profit margin) in the Group's overall revenue.

Other income and expenses

For the year ended 31 December 2018, the Group recorded other income amounted to approximately RMB93.7 million, representing an increase of approximately RMB72.6 million from approximately RMB21.1 million comparing with 2017. Such increase was mainly due to the increase of interest income.

Other gains and losses

For the year ended 31 December 2018, the Group recorded other losses amounted to approximately RMB93.0 million, while recorded other gains amounted to approximately RMB8.2 million in 2017. Such change was mainly due to the exchange loss arising from depreciation of RMB.

Selling and distribution expenses

For the year ended 31 December 2018, the Group's selling and distribution expenses decreased by approximately 15.3% to approximately RMB108.9 million from approximately RMB128.6 million in 2017. Such decrease was mainly due to the decrease in transportation costs and after-sale service expenses, which resulted from the decrease in sales of automotive parts business.

Research and development expenditure

For the year ended 31 December 2018, the Group's R&D expenditure increased by approximately 5.8% to approximately RMB48.9 million from approximately RMB46.2 million in 2017. Such increase was mainly due to: (i) greater efforts on the research of applying the shock absorber-related technology to different brands and models of automobiles; and (ii) additional development costs of shock absorbers for newly-developed automobiles.

Administrative expenses

For the year ended 31 December 2018, the Group's administrative expenses decreased by approximately 12.7% to approximately RMB386.4 million from approximately RMB442.6 million in 2017. Such decrease was mainly due to enhancement in the management of administrative expenses by the Group and optimisation of office premises.

Finance costs

For the year ended 31 December 2018, the Group's finance costs increased by approximately 91.4% to approximately RMB245.8 million from approximately RMB128.4 million in 2017. Such increase was mainly due to increased interest expenses attributable to the increase in working capital required for developing financial services business and education operation business.

Taxation

For the year ended 31 December 2018, the Group's taxation changed from the income tax credit of approximately RMB42.8 million in 2017 to income tax expense of approximately RMB6.9 million. Such change was mainly due to the increase in deferred income tax liabilities.

Loss for the year

For the year ended 31 December 2018, the Group recorded a loss of approximately RMB1,356.4 million, representing an increase of approximately 352.3% as compared to a loss of approximately RMB299.9 million in 2017. Such loss was mainly due to: (i) an unrealized (non-cash) loss arising from the unfavorable fair value changes of the Group's financial assets measured at FVTPL; (ii) an increase in finance costs of the Group; and (iii) an exchange loss resulted from the depreciation of RMB in the current period.

Basic loss per Share

For the year ended 31 December 2018, the basic loss per Share of the Group amounted to approximately RMB0.28, while the basic loss per Share amounted to approximately RMB0.07 in 2017.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets

The Group's cash and bank balances are mostly denominated in RMB and HK$. As at 31 December 2018, the Group's net current assets amounted to approximately RMB816.4 million, representing a decrease of approximately 64.8% as compared with that of approximately RMB2,321.5 million as at 31 December 2017. Such decrease was mainly due to: (i) the convertible bonds and part of the borrowings changed from non-current liabilities to current liabilities; and (ii) the decrease in fair values of financial assets measured at FVTPL.

Financial position and borrowings

The Group adopts prudent financial policies, closely monitors its financial positions and maintains adequate working capital and liquidity in order to grasp any favorable business opportunities and take the future challenges. As at 31 December 2018, the Group's cash and bank balances amounted to approximately RMB303.0 million, representing a decrease of approximately 55.9% as compared with that of approximately RMB686.5 million as at 31 December 2017. Such decrease was mainly due to the use of funds from the financing proceeds of the Group.

The borrowings of the Group are mostly denominated in RMB, HK$, and US$. The management of the Group reviews and monitors the borrowings level on a regular basis. As at 31 December 2018, the Group's total borrowings amounted to approximately RMB3,051.4million, representing an increase of approximately 3.0% as compared with that of approximately RMB2,961.5 million as at 31 December 2017. Out of total borrowings, (i) borrowings due within one year amounted to approximately RMB1,985.0 million, representing an increase of approximately 44.1% as compared with that of approximately RMB1,377.1 million as at 31 December 2017; (ii) borrowings due over one year but within two years amounted to approximately RMB626.9 million, representing an increase of approximately 155.6% as compared with that of approximately RMB245.3 million as at 31 December 2017; (iii) borrowings due over two years but within five years amounted to approximately RMB311.7 million, representing a decrease of approximately 75.3% as compared with that of approximately RMB1,261.2 million as at 31 December 2017; and (iv) borrowings due over five years amounted to approximately RMB127.8 million, representing an increase of approximately 64.1% as compared with that of approximately RMB77.9 million as at 31 December 2017.

As at 31 December 2018, approximately RMB2,930.8 million of the Group's total borrowings (31 December 2017: approximately RMB2,771.6 million) is calculated at fixed interest rates.

As at 31 December 2018, the Group's gearing ratio, calculated as the percentage of total borrowings and bills payable divided by total assets, was approximately 33.0% (31 December 2017: approximately 32.8%).

Working capital

The management of the Group regularly reviews and monitors the inventory level. As at 31 December 2018, the Group's inventories amounted to approximately RMB137.6 million, representing a decrease of approximately 39.6% as compared with that of approximately RMB227.9 million as at 31 December 2017. Such decrease was mainly due to the improvement of control of production plan for automotive parts business. For the year ended 31 December 2018, the average inventory turnover days were approximately 51.1 days (2017: approximately 57.8 days). The average inventory turnover days were calculated as the average of opening and closing balances of inventory for the year divided by cost of sales/services for the year and multiplied by 365 days.

The management of the Group regularly reviews and monitors the level of trade receivables. As at 31 December 2018, the Group's trade receivables amounted to approximately RMB545.5 million, representing an increase of approximately 2.4% as compared with that of approximately RMB532.7 million as at 31 December 2017. For the year ended 31 December 2018, the average turnover days of trade receivables were approximately 108.7 days (2017: approximately 105.7 days). The average turnover days of trade receivables were calculated as the average of opening and closing balances of trade receivables for the year divided by revenue for the year and multiplied by 365 days.

The management of the Group regularly reviews and monitors the level of trade payables. As at 31 December 2018, the Group's trade payables amounted to approximately RMB668.7 million, representing an increase of approximately 21.0% as compared with that of approximately RMB552.8 million as at 31 December 2017. Such increase was mainly due to the presence of the trade payables in respect of the bill receivables, which was endorsed but yet derecognised, at the end of the year. For the year ended 31 December 2018, the average turnover days of trade payables were approximately 170.8 days (2017: approximately 137.3 days). The average turnover days of trade payables were calculated as the average of the opening and closing balances of trade payables for the year divided by cost of sales/services for the year and multiplied by 365 days.

SIGNIFICANT INVESTMENT HELD

The financial assets measured at FVTPL of the Group was investments in securities listed on the Stock Exchange, SGX, the Australian Securities Exchange ("**ASX**"), the Shanghai Stock Exchange ("**SSE**") and the Shenzhen Stock Exchange ("**SZSE**") as well as investments in unlisted projects, including Virscend Education Company Limited (HK.1565), Sichuan Jinlu Group Co., Ltd. (SZA.000510), Sichuan Guangan AAA Public Co., Ltd. (SHA.600979), with total investment cost of approximately RMB3,382.8 million (31 December 2017: approximately RMB2,746.8 million). As at 31 December 2018, the fair value of such investments was approximately RMB2,631.3 million (31 December 2017: approximately RMB2,868.6 million), which was equivalent to approximately 26.9% (31 December 2017: approximately 30.7%) of the total assets of the Group as at 31 December 2018. For the year ended 31 December 2018, the fair value changes of financial assets measured at FVTPL of the Group was a loss of approximately RMB906.1 million (2017: loss of approximately RMB70.8 million). Such loss was mainly due to an unrealized (non-cash) loss arising from the unfavorable fair value changes of the investment of securities listed on the Stock Exchange, SZSE and SSE by the Group.

The principal investment objective of the Group is to seek capital appreciation with a view to enhancing the application of financial resources of the Group and maximizing returns for the Shareholders. Investment will be made by the Group in those segments and industries that the Directors may determine from time to time having considered, among others, their prospect, returns to the Group and potential risks. Looking ahead, the global stock market will remain volatile due to the uncertainties as a result of trade war, interest rate fluctuations and geo-political conditions. The performance of the Group's securities and other investments may be affected by such unstable market conditions. The Group will regularly review its investment strategies and closely monitor the stock markets to mitigate the related risks. In addition, the Group will seek potential investment opportunities to diversify its investment portfolio with an aim to maximize values for the Shareholders.

CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

For the year ended 31 December 2018, the Group's capital expenditures were approximately RMB111.2 million (2017: approximately RMB130.7 million), which were primarily the expenses of the automotive parts business and education operation business in respect of additions to property, plant and equipment.

The Group has been financing its capital expenditures primarily through the cash generated from operations, equity fundraising and debt financing.

As at 31 December 2018, the Group's capital commitments to additional property, plant and equipment amounted to approximately RMB24.2 million (31 December 2017: approximately RMB3.2 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2018, save as disclosed in this annual report, the Group did not have any other immediate plans for material investments and capital assets.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (31 December 2017: Nil).

PLEDGE OF ASSETS

As at 31 December 2018, the Group's financial assets measured at FVTPL with a carrying amount of approximately RMB1,021.1 million (31 December 2017: approximately RMB1,404.0 million) and the Group's construction in progress with a carrying amount of approximately RMB40.1 million (31 December 2017: Nil) have been pledged to acquire borrowings for the Group.

As at 31 December 2018, the Group's certain restricted bank balances with the carrying amount of approximately RMB625.3 million (31 December 2017: approximately RMB556.3 million) have been used for, such as the customer deposits for trading securities and pledges for the bills payables with a maturity of six months issued to suppliers.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the restricted bank balances and bank balances, and variable rate of interest incurred on short term bank borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate loan receivables, borrowings, and convertible bonds.

The Group has not used any financial instrument to hedge the interest rate risk that it is exposed to currently. However, the management of the Group monitors interest rate risk exposures and will consider hedging significant interest rate risk should the need arises.

FOREIGN EXCHANGE RISK

The consolidated financial statements of the Group are presented in RMB. Certain assets and liabilities of the Group are denominated in the currency other than RMB such as HK$ and US$. Any material volatility in the exchange rates of these currencies against RMB may affect the financial condition of the Group.

The Group has not used any financial instrument to hedge the foreign exchange risk that it is exposed to currently. However, the management of the Group monitors foreign exchange exposures and will consider hedging significant foreign exchange risk should the need arise.

HUMAN RESOURCES

As at 31 December 2018, the Group had 4,114 employees (31 December 2017: 4,018 employees). For the year ended 31 December 2018, the Group's total remuneration and welfare benefits expenses amounted to approximately RMB396.8 million (2017: approximately RMB357.3 million). Based on the Group's remuneration policy, the remuneration of employees is primarily determined based on the job responsibilities, work experience and length of service of each employee and the prevailing market condition. The Group has also provided internal and external trainings and courses to its employees to encourage self-improvement and enhance their professional technical skills. The remuneration of the Directors will be determined based on their job duties and responsibilities, experience and the prevailing market condition.

SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at the EGM held on 19 October 2011, the Share Option Scheme was approved and adopted. The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

For the year ended 31 December 2018, no share options were granted under the Share Option Scheme by the Company. In addition, as at 31 December 2018, no share options under the Share Option Scheme were outstanding.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Acquisition of Shares in SJW International and Issue of Consideration Shares under General Mandate

As disclosed in the Company's announcement dated 28 July 2017, (i) the Company and Mr. Siwon Lee (the "**First Seller**") entered into a share purchase agreement, pursuant to which the Company conditionally agreed to purchase and the First Seller conditionally agreed to sell 52% of the total issued shares of SJW International; and (ii) the Company and Ms. Kija Lee (the "**Second Seller**") entered into another share purchase agreement (the "**Second Share Purchase Agreement**"), pursuant to which the Company conditionally agreed to purchase and the Second Seller conditionally agreed to sell 2% of the total issued shares of SJW International. For further information, please refer to the Company's announcements dated 28 July 2017, 15 August 2017, 27 November 2017 and 29 December 2017, respectively.

As disclosed in the Company's announcement dated 31 January 2018, (i) the Company and the First Seller entered into an amended and restated agreement (the "**Amended and Restated Agreement**"), pursuant to which the Company conditionally agreed to purchase and the First Seller conditionally agreed to sell 10% of the total issued shares of SJW International; and (ii) the Company and the Second Seller entered into a termination of share purchase agreement, pursuant to which the Second Share Purchase Agreement shall be terminated. The Company allotted and issued 18,140,000 new Shares to the First Seller on 26 February 2018 in accordance with the Amended and Restated Agreement. For further information, please refer to the Company's announcements dated 31 January 2018, 1 February 2018 and 26 February 2018, respectively.

Acquisition of 100% Equity Interest in Tiantai Culture and Issue of Consideration Shares under General Mandate

As disclosed in the Company's announcement dated 6 February 2018, the Company, Shenzhen First Capital International Business Consulting Limited* (深圳首控國際商務諮詢有限公司) ("**FC International Business**") (an indirect wholly-owned subsidiary of the Company), Kaifeng Tiantai Culture Media Limited* (開封天泰文化傳媒有限公司) ("**Tiantai Culture**"), Mr. Yang Tongzhen and Henan Oulijin Tiantai Estates Holdings Limited* (河南歐利金天泰置業集團有限公司) (collectively, the "**Tiantai Sellers**") and Champion Alliance Holdings Incorporated ("**Champion Alliance**") entered into a sale and purchase agreement (the "**Tiantai Sale and Purchase Agreement**"), pursuant to which FC International Business conditionally agreed to purchase and the Tiantai Sellers conditionally agreed to sell in aggregate 100% of the equity interest of Tiantai Culture. The Company allotted and issued 76,300,000 new Shares to Champion Alliance on 26 February 2018 in accordance with the Tiantai Sale and Purchase Agreement. For further information, please refer to the Company's announcements dated 6 February 2018 and 26 February 2018, respectively.

As disclosed in the Company's announcement dated 29 March 2019, Zhengzhou Longqi Enterprise Company Limited* (鄭州隆啟實業有限公司) ("**Zhengzhou Longqi**"), FC International Business, and Tiantai Culture entered into the agreement on the transfer of 100% equity interest and shareholder's loans, pursuant to which Zhengzhou Longqi agreed to purchase and FC International Business agreed to sell the 100% equity interest of Tiantai Culture and the shareholder's loans of RMB39,120,000. For further information, please refer to the Company's announcement dated 29 March 2019.

Subscription of New Shares in KSI Education and Issue of Consideration Shares under General Mandate

As disclosed in the Company's announcement dated 15 June 2018, the Company, Bonus First Holdings Limited ("**Bonus First**"), Ms. Yao Zhen and KSI Education entered into an investment agreement (the "**Investment Agreement**"), pursuant to which KSI Education conditionally agreed to allot and issue, and (i) the Company conditionally agreed to subscribe for, 29,400,000 new shares of KSI Education, and (ii) Bonus First conditionally agreed to subscribe for, 30,600,000 new shares of KSI Education. The Company allotted and issued 74,500,000 new Shares to KSI Education on 6 July 2018 in accordance with the Investment Agreement. For further information, please refer to the Company's announcements dated 15 June 2018, 6 July 2018 and 24 December 2018, respectively.

Acquisition of 100% Equity Interest in Xinjiang Edukeys and Issue of Consideration Shares under General Mandate

As disclosed in the Company's announcement dated 3 August 2018, the Company, FC Fund and the Edukeys Vendors, among others, entered into a sale and purchase agreement (the "**Edukeys Sale and Purchase Agreement**"), pursuant to which FC Fund has conditionally agreed to purchase and the Edukeys Vendors have conditionally agreed to sell in aggregate 100% of the equity interest of Xinjiang Edukeys. The Company allotted and issued 80,452,000 new Shares to the Edukeys Vendors on 6 September 2018 in accordance with the Edukeys Sale and Purchase Agreement. For further information, please refer to the Company's announcements dated 3 August 2018 and 6 September 2018, respectively.

Acquisitions and Disposals of Shares in G8 Education

As disclosed in the Company's announcement dated 8 November 2018, over the period from 1 March 2018 to 8 November 2018, (i) the Company has acquired an aggregate of 4,077,345 shares of G8 Education Limited ("**G8 Education**") in a series of transactions conducted on the ASX at an average price of approximately AUD2.65 per share of G8 Education; (ii) the Company has disposed an aggregate of 2,509,844 shares of G8 Education in a series of transactions conducted on the ASX at an average price of approximately AUD2.09 per share of G8 Education; and (iii) Investorlink Securities Limited as trustee for First Capital Australia Education Master Fund has disposed an aggregate of 5,095,785 shares of G8 Education in a series of transactions conducted on the ASX at an average price of approximately AUD2.30 per share of G8 Education. For further information, please refer to the Company's announcement dated 8 November 2018.

EQUITY FUND RAISING ACTIVITIES AND USE OF PROCEEDS

For the year ended 31 December 2018, save for the equity fund raising activities set out below, the Company had not carried out any other equity fund raising activities involving the utilisation of the general mandate granted at the AGM held on 1 June 2017 and the general mandate granted at the AGM held on 6 June 2018.

Date of announcement	Fund raising activities	Net proceeds raised	Proposed use of proceeds	Actual use of proceeds as at the date of this annual report
14 December 2017	Issue of HK$800,000,000 convertible bonds at the initial conversion price of HK$3.27 per conversion Share[1]	Approximately HK$751 million	The development of the Group's education operation business and financial service business, including but not limited to further investment in educational institutions and projects, launch of educational consultancy and management services, acquisition of overseas financial service licences, and expansion of the scope and scale of service of the Group's existing financial service business.	Approximately HK$751 million has been used for the development of the Group's education operation business and financial service business, including but not limited to further investment in educational institutions and projects, launch of educational consultancy and management services, acquisition of overseas financial service licences, and expansion of the scope and scale of service of the Group's existing financial service business.
26 February 2018	Issue of 18,140,000 new Shares at the issue price of HK$2.58 per consideration Share[2, 6]	N/A	Settling the consideration for the acquisition of 10% of the total issued shares of SJW International as disclosed in the Company's announcement dated 31 January 2018.	18,140,000 new Shares have been issued for settling the consideration for the acquisition of 10% of the total issued shares of SJW International as disclosed in the Company's announcement dated 31 January 2018.
26 February 2018	Issue of 76,300,000 new Shares at the issue price of HK$2.70 per consideration Share[3, 6]	N/A	Settling the consideration for the acquisition of 100% of the equity interest of Tiantai Culture as disclosed in the Company's announcement dated 6 February 2018.	76,300,000 new Shares have been issued for settling the consideration for the acquisition of 100% of the equity interest of Tiantai Culture as disclosed in the Company's announcement dated 6 February 2018.

Date of announcement	Fund raising activities	Net proceeds raised	Proposed use of proceeds	Actual use of proceeds as at the date of this annual report
6 July 2018	Issue of 74,500,000 new Shares at the issue price of HK$4.15 per consideration Share[4, 6]	N/A	Settling the consideration for the subscription of 29,400,000 new shares of KSI Education as disclosed in the Company's announcement dated 15 June 2018.	74,500,000 new Shares have been issued for settling the consideration for the subscription of 29,400,000 new shares of KSI Education as disclosed in the Company's announcement dated 15 June 2018.
6 September 2018	Issue of 80,452,000 new Shares at the issue price of HK$5.02 per consideration Share[5, 6]	N/A	Settling the consideration for the acquisition of 100% of the equity interest in Xinjiang Edukeys as disclosed in the Company's announcement dated 3 August 2018.	80,452,000 new Shares have been issued for settling the consideration for the acquisition of 100% of the equity interest in Xinjiang Edukeys as disclosed in the Company's announcement dated 3 August 2018.

Notes:

1. For the development of the Group's education operation business and financial services business, the Company issued convertible bonds in the principal amount of HK$800,000,000 to Champion Sense Global Limited, a wholly-owned subsidiary of Huarong International Financial Holdings Limited, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 993). The convertible bonds will become mature on the second anniversary of the issue date of the convertible bonds and shall bear interest on the outstanding principal amount of the convertible bonds at the rate of (a) 7% per annum for the period from and including the issue date up to and excluding the first anniversary of the issue date; and (b) 8% per annum for the period from and including the first anniversary of the issue date up to and including the maturity date of the convertible bonds. The initial conversion price of HK$3.27 per conversion Share represented a discount of approximately 7.10% to the closing price of HK$3.52 per Share as quoted on the Stock Exchange on the date of the subscription agreement dated 4 December 2017. Upon full exercise of the conversion rights, the convertible bonds can be converted into 244,648,318 conversion Shares.

2. For the acquisitions of 10% of the total issued shares of SJW International, the Company allotted and issued 18,140,000 new Shares to the First Seller. The allottee is an Independent Third Party. The aggregate nominal value of the consideration Shares was HK$362,800. In accordance with the Amended and Restated Agreement dated 31 January 2018, the issue price of HK$2.58 per consideration Share, represented a discount of approximately 11.34% over the closing price of HK$2.91 per Share as quoted on the Stock Exchange on the date of the agreement. The net issue price per consideration Share was approximately HK$2.58 per Share.

3. For the acquisitions of 100% of the equity interest in Tiantai Culture, the Company allotted and issued 76,300,000 new Shares to Champion Alliance. Each of the allottee and its ultimate beneficial owner is an Independent Third Party. The aggregate nominal value of the consideration Shares was HK$1,526,000. In accordance with the Tiantai Sale and Purchase Agreement dated 6 February 2018, the issue price of HK$2.70 per consideration Share, represented a discount of approximately 6.57% over the closing price of HK$2.89 per Share as quoted on the Stock Exchange on the date of the agreement. The net issue price per consideration Share was approximately HK$2.70 per Share.

4. For the subscription of 29,400,000 new shares of KSI Education, the Company allotted and issued 74,500,000 new Shares to KSI Education. Each of the allottee and its ultimate beneficial owner is an Independent Third Party. The aggregate nominal value of the consideration Shares was HK$1,490,000. In accordance with the Investment Agreement dated 15 June 2018, the issue price of HK$4.15 per consideration Share, represented a discount of approximately 4.82% over the closing price of HK$4.36 per Share as quoted on the Stock Exchange on the date of the agreement. The net issue price per consideration Share was approximately HK$4.15 per Share.

5. For the acquisitions of 100% of the equity interest in Xinjiang Edukeys, the Company allotted and issued 80,452,000 new Shares to the Edukeys Vendors. Each of the allottees and their respective ultimate beneficial owner(s) (where applicable) is an Independent Third Party. The aggregate nominal value of the consideration Shares was HK$1,609,040. In accordance with the Edukeys Sale and Purchase Agreement dated 3 August 2018, the issue price of HK$5.02 per consideration Share, represented a discount of approximately 4.74% over the closing price of HK$5.27 per Share as quoted on the Stock Exchange on the date of agreement. The net issue price per consideration Share was approximately HK$5.02 per Share.

6. The issue price per consideration Share is determined by the related parties of the agreement, while the issue price per consideration Share in Note 41 to the consolidated financial statement is the closing price per Share as quoted on the Stack Exchange on the date of completion of the proposed transaction contemplated under the agreement.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Wilson Sea

Dr. Wilson Sea ("**Dr. Sea**"), aged 55, was appointed as the Chairman and a non-executive Director on 27 April 2011 and was re-designated as the Chairman and an executive Director on 1 January 2015. He is responsible for the general strategic planning, business planning and co-ordination of the Group, as well as for supervision of the enforcement and execution of the management's strategies. He is also a director of a number of subsidiaries of the Company.

From 1997 to 2004, Dr. Sea worked in Minsheng Securities Co., Ltd. as an assistant to president, president and chairman, responsible for the investment banking business, the business of research department, planning and development of the company. From 2004 to 2007, he was the chairman of the board of Kaifeng Lanwei Highway Development Company Limited* (開封市蘭尉高速公路發展有限公司). He worked as the vice-chairman of the board of Yubei (Xinxiang) Power Steering System Co., Ltd. from 2007 to 2011.

Dr. Sea obtained a bachelor's degree in economics from Henan University in 1986. He further obtained a master's degree and a doctoral degree in economics from Fudan University in 1992 and 1995 respectively. He was appointed as a professor by Henan University in 1995.

Dr. Sea is the director and shareholder of Wealth Max which is a substantial Shareholder. As at the date of this annual report, Dr. Sea is deemed to be interested in 809,520,000 Shares, representing approximately 16.10% of the total issued Shares. Dr. Sea is the brother-in-law of Dr. Wang Hui, the chief financial officer of the Company. He is also the uncle of Mr. He Yaobin, a deputy chief executive officer of the Company.

Mr. Zhao Zhijun

Mr. Zhao Zhijun ("**Mr. Zhao**"), aged 44, was appointed as the chief executive officer of the Company and an executive Director on 22 May 2011 and was re-designated as a Co-CEO and an executive Director on 26 July 2017. As a Co-CEO, Mr. Zhao is principally responsible for the management and development of the automotive parts business of the Group. He is also a director of a number of subsidiaries of the Company.

Mr. Zhao has substantial experience in management in automobile shock absorber industry. Prior to joining the Group, Mr. Zhao worked for the general office of the Zhengzhou Office of the CSRC from 1999 to 2002. He served as a general manager of Nanyang business department of Minsheng Securities Co., Ltd. from 2002 to 2005.

Mr. Zhao graduated from Central South University with a master's degree in philosophy in 2004.

Ms. Li Dan

Ms. Li Dan ("**Ms. Li**"), aged 46, was appointed as an executive Director on 29 August 2016 with effect from 1 September 2016.

Ms. Li worked at Bank of China Limited from 1991 to 2014 and served various management roles at branch offices and provincial head offices. She joined Chengdu Zhongyingchuangyue Enterprise Group Limited* (成都中盈創越實業集團有限公司) in 2015 and served as the chairman of its board of directors.

Ms. Li graduated as a bachelor of finance from Chengdu University of Information Technology in 2002. In 2016, she completed a capital market and corporate finance decision program from Cheung Kong Graduate School of Business.

Dr. Zhu Huanqiang

Dr. Zhu Huanqiang ("**Dr. Zhu**"), aged 49, was appointed as a deputy chief executive officer of the Company on 11 October 2016 and a Co-CEO on 26 July 2017. He has been appointed as a Co-CEO and an executive Director on 30 January 2018 with effect from 1 February 2018. As a Co-CEO, Dr. Zhu is principally responsible for the management and development of the education operation business and financial services business of the Group. He is also a director of a number of subsidiaries of the Company.

Dr. Zhu has substantial experience in the capital market. From 1997 to 2010, he held various positions at the CSRC, including serving as a director of Inspection Division II of the Department of Intermediary Supervision of the CSRC and a deputy director of Heilongjiang Regulatory Bureau of the CSRC. From 2011 to 2016, he served as a deputy general manager of China Securities Finance Corporation Limited ("**CSF**") and a member of the Committee of Communist Party of China of CSF.

Dr. Zhu is a qualified lawyer in China. He obtained a master's degree in law with a major in civil law from Southwest University of Political Science and Law in 1996 and a doctoral degree in law with a major in civil and commercial law from China University of Political Science and Law in 2006.

NON-EXECUTIVE DIRECTOR

Mr. Li Hua

Mr. Li Hua ("**Mr. Li**"), aged 37, was appointed as the non-executive Director on 28 March 2016 with effect from 1 April 2016.

Mr. Li worked at Sichuan Branch of the Bank of China Limited from 2003 to 2015. Since 2015, he has been the chairman of Sichuan Tongweisheng Industrial Limited* (四川通偉盛實業有限公司).

Mr. Li graduated from Sichuan University in 2003 with a bachelor of engineering majoring in software engineering. Mr. Li possessed the qualification of National Counselling Psychologist (Class Three).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chu Kin Wang, Peleus

Mr. Chu Kin Wang, Peleus ("**Mr. Chu**"), aged 54, was appointed as an INED on 19 October 2011. Mr. Chu has over 20 years of experience in corporate finance, audit, accounting and taxation.

Mr. Chu was or has been an executive director, a non-executive director or a senior management personnel of the following companies listed on the Main Board of the Stock Exchange: (a) Global Mastermind Capital Limited (formerly known as Mastermind Capital Limited) (stock code: 905): executive director from September 2005 to March 2007; (b) Chinese People Holdings Company Limited (formerly known as Chinese People Gas Holdings Company Limited) (stock code: 681): executive director since December 2008 and deputy chairman since March 2015; (c) Perfect Group International Holdings Limited (stock code: 3326): non-executive director from August 2015 to February 2017; and (d) Suncity Group Holdings Limited (formerly known as Sun Century Group Limited) (stock code: 1383): company secretary from February 2007 to September 2010.

Mr. Chu was or has been also an independent non-executive director of the following companies listed on the Main Board or the Growth Enterprise Market of the Stock Exchange: (a) Tianli Holdings Group Limited (formerly known as EYANG Holdings (Group) Co., Limited) (stock code: 117): since April 2007; (b) Sustainable Forest Holdings Limited (formerly known as Bright Prosperous Holdings Limited) (stock code: 723): from January 2008 to August 2010; (c) Huayu Expressway Group Limited (stock code: 1823): since May 2009; (d) Flyke International Holdings Ltd. (stock code: 1998): since February 2010; (e) SuperRobotics Limited (formerly known as SkyNet Group Limited) (stock code: 8176): since March 2012; (f) Telecom Service One Holdings Limited (transferred listing from the Growth Enterprise Market (stock code: 8145) to the Main Board of the Stock Exchange (stock code: 3997)): from April 2013 to December 2017; (g) National Agricultural Holdings Limited (formerly known as Qianlong Technology International Holdings Limited) (stock code: 1236): from June 2015 to September 2015; (h) Madison Holdings Group Limited (formerly known as Madison Wine Holdings Limited) (stock code: 8057): since September 2015; (i) Mingfa Group (International) Company Limited (stock code: 846): since November 2016; (j) PT International Development Corporation Limited (formerly known as ITC Corporation Limited) (stock code: 372): from March 2017 to September 2017; and (k) China Huishan Dairy Holdings Company Limited (stock code: 6863): from June 2017 to December 2017.

Mr. Chu graduated from the University of Hong Kong with a master's degree in business administration. Mr. Chu is a fellow member of the HKICPA and the Association of Chartered Certified Accountants. He is also an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

Dr. Li Zhiqiang

Dr. Li Zhiqiang ("**Dr. Li**"), aged 56, was appointed as an INED on 19 October 2011.

Dr. Li has been an executive director or a senior management personnel of the following companies listed on the Main Board or the Growth Enterprise Market of the Stock Exchange: (a) Seamless Green China (Holdings) Limited (stock code: 8150): executive director from June 2016 to May 2017; (b) China Shanshui Cement Group Limited (formerly known as Fast Systems Technology (Holdings) Limited) (stock code: 691): deputy chairman and executive director from November 2017 to March 2018; and (c) Kai Yuan Holdings Limited (formerly known as Guo Xin Group Limited) (stock code: 1215): chairman and executive director from June 2018.

Dr. Li has been the legal advisor of the General Office of the Central Military Commission of the PRC and an executive editor-incharge of China Military Law Magazine* (《中國軍法》) since 1994, a responsible person (in charge) of letters and visits reporting centre of China Insurance Regulatory Commission since 2003 and an executive director and the president of Shougang Holdings Limited* (首鋼控股有限公司) since 2004. He was a director of Sino Life Insurance Co., Ltd. in 2006 and vice chairman in 2008, and chairman of China Int'l Culture Media Limited since 2006. He was also appointed as the chairman and secretary to the Communist Party Committee of Shougang Yili Steel Co., Ltd.* (首鋼伊犁鋼鐵有限公司) and a director of Tonghua Steel Holdings Co. Ltd.* (通化鋼鐵集團股份有限公司) in 2010.

Dr. Li was elected as China's Top Ten Wealthy and Intelligent Figures (中華十大財智人物) in 2010. He was honored with China's Top Ten Economic Figures of the Year (中國十大年度經濟人物大獎), Excellent Worker of Beijing Municipal (北京市勞動模範) and Best Entrepreneur of Beijing Municipal (北京市優秀企業家) in 2012. Dr. Li was honored by the United Nations Educational, Scientific and Cultural Organization, Ministry of Education and Ministry of Culture of the PRC with the Confucius Business Prize and was the honorary chairman of China Confucius Business Club* (中國孔子儒商俱樂部) in 2015.

Dr. Li graduated from University of Science and Technology of China with a master of management and Euromed Marseille Ecole de Management with a doctor of management and is currently the academician of the World Academy of Productivity.

Mr. Wang Song

Mr. Wang Song ("**Mr. Wang**"), aged 32, was appointment as an INED on 15 June 2018.

Mr. Wang worked at China CITIC Bank Corporation Limited from July 2010 to June 2012, after which he worked as a practising lawyer at Sichuan Mingju Law Firm* (四川明炬律師事務所) (formerly known as Sichuan Anxu Law Firm* (四川安序律師事務所) before the merger in August 2013) since March 2013.

Mr. Wang obtained his bachelor's degree in law from Peking University in July 2013 and is now practising as a lawyer in China. He has over six years of experience in providing legal advice for corporate, commercial and investment transactions in China.

SENIOR MANAGEMENT

Mr. Hung Man Yuk, Dicson

Mr. Hung Man Yuk, Dicson ("**Mr. Hung**"), aged 43, has been the Company Secretary and authorised representative of the Company since 1 March 2012. Mr. Hung has extensive experience in accounting, financial control and compliance.

Mr. Hung has been appointed executive of several companies listed on the Stock Exchange, including qualified accountant, chief financial officer and company secretary of Zhongtian International Limited (stock code: 2379) from 2007 to 2008, company secretary of Come Sure Group (Holdings) Limited (stock code: 794) from 2010 and China Tian Lun Gas Holdings Limited (stock code: 1600) from 2017 respectively.

Mr. Hung obtained a master's degree in finance from Curtin University of Technology in 2002. He was admitted a member of the HKICPA in 2004 and a fellow member of the Chartered Association of Certified Accountants in 2006. He is also a member of the Hong Kong Institute of Directors.

Dr. Wang Hui

Dr. Wang Hui ("**Dr. Wang**"), aged 40, was appointed as the chief financial officer of the Company on 31 December 2015. He is also a director of a number of subsidiaries of the Company. Dr. Wang is the brother-in-law of Dr. Sea.

Prior to joining the Group, Dr. Wang served as investment manager of Henan Hexie Venture Capital Management Co., Ltd.* (河南合協創業投資管理有限公司) from September 2006 to February 2008; chief financial officer of Nanyang Pukang Pharmaceutical Co., Ltd. *(南陽普康藥業有限公司) from March 2008 to January 2012; chief financial officer of Shenzhen Huaxin Equity Investment Fund Management Co., Ltd.* (深圳華信股權投資基金管理有限公司) from February 2012 to December 2013; and general manager of Shenzhen Huaxinbainian Equity Investment Fund Management Co., Ltd.* (深圳華信柏年股權投資基金管理有限公司) from January 2014 to December 2015.

Dr. Wang graduated from Shanghai University of Finance and Economics ("**SUFE**") in 2000 and obtained a bachelor's degree in economics with major in asset valuation and management. In 2003, he obtained a master's degree in economics from School of Public Economics and Management of SUFE. In 2007, he further obtained a doctoral degree in management from School of Accounting of SUFE . Dr. Wang is a non-practising member of China Association of Certified Public Accountants.

Mr. He Yaobin

Mr. He Yaobin ("**Mr. He**"), aged 38, was appointed as a deputy chief executive officer of the Company on 1 January 2015. Mr. He is in charge of several units of financial services business of the Group. He is also a director of a number of subsidiaries of the Company. Mr. He is a nephew of Dr. Sea.

Mr. He has many years of experience in venture capital and business management. He served as a vice president and a director of companies engaged in venture capital and fund management. He is familiar with the financial systems, financing platforms, and capital market operations both within China and overseas. He participated in many merger and acquisition projects as well as investment analyses and decision-making within and outside China.

Ms. Sun Bo

Ms. Sun Bo ("**Ms. Sun**"), aged 44, was appointed as a deputy chief executive officer of the Company on 1 January 2015. Ms. Sun is responsible for post-investment management, operation and enhancement in several education projects of the Group. She is also a director of a number of subsidiaries of the Company.

Ms. Sun served as a senior manager of Minsheng Securities Co., Ltd. from December 1996 to February 2002, an investor relations vice president of Zhongyu Gas Holdings Limited (transferred listing from the Growth Enterprise Market (stock code: 8070) to the Main Board of the Stock Exchange (stock code: 3633)) from June 2004 to August 2010 and an executive director of Great China Properties Holdings Limited (formerly known as Beauforte Investors Corporation Limited) (a company listed on the Main Board of the Stock Exchange, stock code: 21), from June 2006 to June 2007.

Ms. Sun was awarded a master of business administration from Anglia Polytechnic University in the United Kingdom in 2004.

Ms. Li Minwen

Ms. Li Minwen ("**Ms. Minwen**"), aged 50, was appointed as the chief operating officer of the Company on 4 November 2016 and was re-designated as a deputy chief executive officer of the Company on 15 February 2019. Ms. Minwen is responsible for several units of the financial service business of the Group. She is also a director of a number of subsidiaries of the Company.

From July 1996 to December 1999, Ms. Minwen served as a deputy general manager of the Beijing management headquarter of Shenyin & Wanguo Securities Company Limited. From October 2000 to July 2009, she served as the secretary-general and a deputy secretary-general of the Securities Association of Beijing respectively. From July 2009 to February 2013, she served as a deputy general manager of the securities brokerage business department of Beijing branch of China Merchants Securities Co., Limited. From February 2013 to November 2016, she served as an executive director and head of channel management department of China Merchants Securities (HK) Co., Limited.

Ms. Minwen obtained a bachelor's degree in finance from Xinjiang College of Finance and Economics in 1990 and a master's degree in economics from Finance Research Institute of the People's Bank of China* (中國人民銀行金融研究所) in 1993.

Mr. Zong Bin

Mr. Zong Bin ("**Mr. Zong**"), aged 42, was appointed as a deputy chief executive officer of the Company on 25 April 2017. Mr. Zong is responsible for wealth management and immigration financial services businesses of the Group as well as the operation and management of FC Fund. He is also a director of a number of subsidiaries of the Company.

Mr. Zong has substantial experience in financial investment and provision of immigration financial services. He has been the chief executive officer of First Capital International Holdings Limited since April 2015 and a director of FC Fund since March 2016.

Mr. Zong graduated from University of Bradford with a master of arts degree in marketing practice in 2006 and obtained a master's degree of business administration (executive) at City University of Hong Kong in 2018.

DIRECTORS' REPORT

DIRECTORS' REPORT

The Board hereby presents this annual report together with the audited consolidated financial statements of the Group for the 2018 Financial Year.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. Before 2014, the Group mainly engaged in automotive parts business. Since the end of 2014, the Group has started to set foot in the financial services business, which provides services such as dealing in securities, underwriting and placing, financing consultancy, merger and acquisition agency, financial advisory, asset management, private equity fund management, credit financing, and migration finance. Since 2016, the Group has continued to diversify its business, with a mission of "Finance Empowers Education, Education Lights Up Future" and to establish a trinitarians interactive business mode, which capitalised educational investment as base and both educational management service and educational financial service as cradles. The Group aspires to become "a globally influential financial services group focusing on education". For further information, please refer to the section headed "Management Discussion and Analysis — Business Review" of this annual report.

SUBSIDIARIES

Details of the principal activities of the Company's principal subsidiaries as at 31 December 2018 are set out in note 50 to the consolidated financial statements of this annual report.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Details on the corporate governance practices adopted by the Company are set out in the Corporate Governance Report of this annual report.

RESULTS

The results of the Group for the 2018 Financial Year are set out in the consolidated statement of profit or loss and other comprehensive income in this annual report.

FINANCIAL SUMMARY

A summary of the consolidated results, assets, liabilities and non-controlling interests of the Group for the last five financial years is set out in the Financial Summary of this annual report.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "**Dividend Policy**") pursuant to Rule 13.09(2) of the Listing Rules that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value.

The Board has the discretion to declare and distribute dividends to the Shareholders, subject to the Articles of the Association and all applicable laws and regulations and the factors as set out below.

The Board shall also take into account the following factors of the Group when considering the declaration and payment of dividends, including financial result, cash flow situation, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans, interests of Shareholders, any restrictions on payment of dividends and any other factors that the Board may consider relevant.

The Board will review the Dividend Policy as appropriate from time to time.

FINAL DIVIDENDS

The Board does not recommend the payment of final dividend for the 2018 Financial Year (2017: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

For the years ended 31 December 2018 and 2017, sales to the Group's five largest customers accounted for approximately 44.0% and approximately 52.5% of the total revenue of the Group, respectively, of which sales to the largest customer accounted for approximately 15.4% and approximately 24.0%, respectively.

For the years ended 31 December 2018 and 2017, purchases from the Group's five largest suppliers accounted for approximately 35.9% and approximately

31.9% of the total purchases of the Group, respectively, of which purchases from the largest supplier accounted for approximately 8.3% and approximately 7.6%, respectively.

None of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the issued Shares) had any interests in the Group's five largest customers or suppliers set out above.

PROPERTY, PLANT AND EQUIPMENT

As at 31 December 2018, the Group had property, plant and equipment at carrying value of approximately RMB925.9 million (31 December 2017: approximately RMB859.4 million). Details of the movements are set out in note 17 to the consolidated financial statements of this annual report.

BORROWINGS

Details of the borrowings of the Group (including bank borrowings and debentures) are set out in note 34 to the consolidated financial statements of this annual report.

CAPITALIZED INTERESTS

For the 2018 Financial Year, the Group did not capitalize any interest expenses related to properties under construction development (2017: Nil).

DONATIONS

For the 2018 Financial Year, the Group made charitable and other donations totaling RMB330,000 (2017: RMB2,239,000).

SHARE CAPITAL

Details of the movements in the issued share capital of the Company for the 2018 Financial Year are set out in note 41 to the consolidated financial statements of this annual report. For further information of the issue of Shares, please refer to the section headed "Management Discussion and Analysis – Equity Fund Raising Activities and Use of Proceeds" of this annual report.

EQUITY LINKED AGREEMENTS

Details of the convertible bonds of the Company for the 2018 Financial Year are set out in note 35 to the consolidated financial statements of this annual report. For further information, please refer to the section headed "Management Discussion and Analysis – Equity Fund Raising Activities and Use of Proceeds" of this annual report.

RESERVES

Details of the movements in the reserves of the Group for the 2018 Financial Year are set out in the consolidated statement of changes in equity in this annual report.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the distributable reserves of the Company amounted to approximately RMB3,466.7 million (31 December 2017: approximately RMB3,315.3 million), comprising the share premium, the capital reserve and the retained earnings of the Company.

Under the Companies Law (2018 Revision) of the Cayman Islands, in addition to the retained earnings of the Company, the share premium and capital reserve of the Company are also available for distribution to the Shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the 2018 Financial Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, under which would oblige the Company to offer new Shares on a pro-rata basis to the existing Shareholders.

SHARE OPTION SCHEME

Pursuant to the written resolutions of Shareholders passed on 19 October 2011, the Company adopted the Share Option Scheme subject to the terms and conditions therein. The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

A. Summary of the Share Option Scheme

1. Purpose

The purpose of the Share Option Scheme is to recognise or acknowledge the contributions that the Eligible Participants (as defined in paragraph 2 below) have made or may make to the business development of the Group.

2. Eligible Participants

The Board may at its discretion offer options to any executive Director, non-executive Director or INED; any employee of the Group and any customer, supplier, agent, business or joint venture partner, consultant, distributor, promotor, service provider, adviser or contractor of any member of the Group. The above-mentioned persons are collectively referred to as "**Eligible Participants**" and each an "**Eligible Participant**".

3. Maximum number of Shares

As at the date of this annual report, the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company was 160,000,000 Shares, representing 10% of the Shares in issue as at the Listing Date having enlarged by five times due to the Share Subdivision.

The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. Options may not be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the said 30% limit being exceeded.

4. Maximum entitlement of each Eligible Participant

Unless approved by the Shareholders, no option may be granted to any Eligible Participant if such exercised in full would result in the total number of Shares issued and to be issued upon exercise of the share options already granted or to be granted to such Eligible Participant (including exercised, cancelled and outstanding share option) in the 12-month period up to and including the date of such new grant exceeding 1% of the total number of Shares in issue as at the date of such new grant.

5. Time of exercise of options and duration of the Share Option Scheme

(a) Time of exercise of options

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be notified by the Board to the grantee save that such period shall not be more than 10 years from the date of grant. There is no minimum period for which an option must be held before it can be exercised.

Unless the Board otherwise determined, a grantee is not required to achieve any performance target before any options granted can be exercised.

(b) Duration of the Share Option Scheme

The duration of the Share Option Scheme shall be 10 years from the date of its adoption.

6. **Subscription price and payment on grant**

(a) **Subscription price**

The subscription price for the Shares under the Share Option Scheme shall be determined by the Board and notified to the Eligible Participant which shall not be less than the highest of the following three criterias:

(i) the nominal value of a Share;

(ii) the closing price of each Share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option; and

(iii) the average closing price of each Share as stated in the Stock Exchange's daily quotation sheet for the five consecutive trading days immediately preceding the date of grant of the option.

(b) **Payment on grant**

Eligible Participants are required to pay a consideration of HK$1.0 for the acceptance of an option granted to them.

7. **Termination of the Share Option Scheme**

Either the Company may by proposing ordinary resolution in general meeting or the Board may at any time terminate the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

B. Options granted by the Company

As at the date of this annual report, no share option has been granted or agreed to be granted under the Share Option Scheme.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the Latest Practicable Date, the Company had maintained sufficient public float that the percentage of the Shares which are in the hands of the public exceeds 25% of the total number of issued Shares as required under the Listing Rules.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holdings of the Shares.

DIRECTORS

The Directors for the 2018 Financial Year and up to the date of this annual report were:

Executive Directors

Dr. Wilson SEA *(Chairman)*
Mr. TANG Mingyang *(until 29 March 2019)*
Mr. ZHAO Zhijun *(Co-CEO)*
Ms. LI Dan
Dr. ZHU Huanqiang *(Co-CEO) (since 1 February 2018)*
Mr. YAN Haiting *(until 1 February 2018)*

Non-Executive Director

Mr. LI Hua

Independent Non-Executive Directors

Mr. CHU Kin Wang, Peleus
Dr. LI Zhiqiang
Mr. WANG Song *(since 15 June 2018)*
Mr. CHEN Gang *(until 15 June 2018)*

According to Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

Mr. Wang Song was appointed by the Board as an INED on 15 June 2018, with immediate effect. As such, Mr. Wang Song will hold office until the forthcoming AGM and, being eligible, offer himself for re-election at the AGM.

According to Article 84(1) of the Articles of Association, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but no less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years. According to Article 84(2) of the Articles of Association, a retiring Director shall be eligible for re-election and shall continue to act as a Director throughout the meeting at which he retires. As such, Dr. Wilson Sea, Mr. Zhao Zhijun and Dr. Zhu Huanqiang will retire, being eligible, offer themselves for re-election.

CHANGES OF DIRECTORS AND DIRECTORS' INFORMATION

As disclosed in the Company's announcement dated 30 January 2018, (i) Mr. Yan Haiting resigned as an executive Director, a member of the Strategy Committee and the Risk Management Committee and an authorised representative of the Company; and (ii) Dr. Zhu Huanqiang was appointed as an executive Director, a member of the Strategy Committee and the Risk Management Committee and an authorised representative of the Company and remained as a Co-CEO, both with effect from 1 February 2018.

At the AGM held on 6 June 2018, Dr. Wilson Sea, an executive Director, Mr. Li Hua, a non-executive Director, and Mr. Chu Kin Wang, Peleus, an INED, had retired and offered themselves for re-election at the meeting according to Article 84 of the Articles of Association.

Since Dr. Zhu Huanqiang, an executive Director, was appointed by the Board, he had retired and offered himself for re-election at the AGM held on 6 June 2018 according to Article 83(3) of the Articles of Association.

As disclosed in the Company's announcement dated 15 June 2018, (i) Mr. Chen Gang resigned as an INED, a member of the Audit Committee, the Nomination Committee, and the Strategy Committee and the chairman of the Remuneration Committee; and (ii) Mr. Wang Song was appointed as an INED, a member of the Audit Committee, the Nomination Committee, and the Strategy Committee and the chairman of the Remuneration Committee, both with effect from 15 June 2018.

As disclosed in the Company's announcement dated 29 March 2019, Mr. Tang Mingyang resigned as an executive Director and a member of the Strategy Committee with effect from 29 March 2019.

For the 2018 Financial Year and up to the date of this annual report, save as the aforementioned, there had been no other changes regarding the Directors and their information which are required to be disclosed under the Listing Rules.

PROFILES OF DIRECTORS

Profiles of the Directors are set out in the Profiles of Directors and Senior Management of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from Mr. Chu Kin Wang, Peleus and Mr. Wang Song an annual confirmation (the "**Annual Confirmation**") of their independence pursuant to Rule 3.13 of the Listing Rules. As at the date of this annual report, the Company still have not received the Annual Confirmation from Dr. Li Zhiqiang. The Company considers Mr. Chu Kin Wang, Peleus and Mr. Wang Song to be independent whereas the independence of Dr. Li Zhiqiang is to be confirmed.

In accordance with the Listing Rules and Articles of Association, the Board will take appropriate action in due course, for the purpose of ensuring good corporate governance.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the Directors and the chief executives 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) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long Positions in Shares

	Number of issued Shares held and nature of interest		
Name of Directors	**Personal interests (beneficial owner)**	**Corporate interests (interests of a controlled corporation)**	**Approximate percentage of total issued Shares**
Wilson Sea[1]	–	809,520,000	16.10%
Tang Mingyang[2]	–	804,360,000	16.00%

Notes:

1. These Shares are held by Wealth Max. Dr. Wilson Sea is the sole beneficial owner of Wealth Max and hence is deemed to be interested in all the Shares held by Wealth Max under the SFO.

2. These Shares are held by Chuang Yue. Mr. Tang Mingyang is the sole ultimate beneficial owner of Chuang Yue and hence is deemed to be interested in all the Shares held by Chuang Yue under the SFO.

Save as disclosed above, as at 31 December 2018, none of the Directors or the chief executives of the Company (including their respective spouse and children under 18 years of age), had any interests or short positions 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) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise required to notify the Company and the Stock Exchange pursuant to the Model Code.

For the 2018 Financial Year, none of the Directors or the chief executives of the Company (including their respective spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for the shares, warrants or debentures (if applicable) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

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

As at 31 December 2018, the following persons (other than a Director or the chief executives of the Company) had interests or short positions in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long Positions in Shares

	Number of issued Shares held and nature of interest	
Name of Shareholders	**Personal interests (beneficial owner)**	**Approximate percentage of total issued Shares**
Wealth Max[1]	809,520,000	16.10%
Wang Lily[2]	809,520,000	16.10%
Chuang Yue[3]	804,360,000	16.00%

Notes:

1. Wealth Max is owned as to 100% by Dr. Wilson Sea.

2. Ms. Wang Lily is the spouse of Dr. Wilson Sea. By virtue of the SFO, Ms. Wang Lily is deemed to be interested in all the Shares in which Dr. Wilson Sea is interested and/or deemed to be interested.

3. Chuang Yue is owned as to 100% by Shenmane.D Co., Limited, which in turn is owned as to 100% by Golden Cloud Co., Limited, and which in turn is owned as to 100% by Mr. Tang Mingyang.

Save as disclosed above, so far as is known to any Director or chief executive of the Company, as at 31 December 2018, no other person had any interest or short position in the Shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

There were no transactions, arrangements or contracts that are significant in relation to the businesses of the Company and its subsidiaries to which the Company or any of its subsidiary was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time for the 2018 Financial Year.

PERMITTED INDEMNITY PROVISION

According to Article 164 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 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; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time for the 2018 Financial Year was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

COMPETING INTEREST

None of the Directors had, either directly or indirectly, an interest in a business which causes or may cause any significant competition with the business of the Group and any other conflicts of interest which any such Directors have or may have with the Group.

CONTRACT OF SIGNIFICANCE

There is no contract of significance between the Company or any of its subsidiaries, and a controlling Shareholder or any of its subsidiaries.

CONNECTED TRANSACTION

For the 2018 Financial Year, the Group had no connected transaction and continuing connected transaction which were not exempted under Chapter 14A of the Listing Rules.

The related party transactions set out in note 45 to the consolidated financial statements of this annual report do not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. The definitions of connected person and connected transaction under Chapter 14A of the Listing Rules are different from the definition of related party and relevant disclosure requirements under Hong Kong Accounting Standard 24, "Related Party Disclosures", and the interpretations of the HKICPA.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors had entered into a service contract with the Company. Details of the service contracts mainly include: (i) a term of directorship for three years with effect from the date of appointment or re-election; and (ii) the contracts shall be terminated according to the terms of each contract.

Each of the non-executive Directors (including INEDs) had signed a letter of appointment with the Company. Details of the letters of appointment mainly include: (i) a term of directorship for three years with effect from the date of appointment or re-election; and (ii) the contracts shall be terminated according to the terms of each contract.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

REMUNERATION OF THE DIRECTORS

Details of the emoluments of each Director for the 2018 Financial Year is set out in note 14 to the consolidated financial statements of this annual report.

REMUNERATION POLICY

As at 31 December 2018, the Group had 4,114 employees (31 December 2017: 4,018 employees). For the 2018 Financial Year, the Group's total remuneration and welfare benefits expenses amounted to approximately RMB396.8 million (2017: approximately RMB357.3 million). Based on the Group's remuneration policy, the remuneration of employees is primarily determined based on the job responsibilities, work experience, job performance and length of service of each employee and the prevailing market condition. The Group has also provided internal and external trainings and courses to its employees to encourage self-improvement and enhance their professional technical skills. The remuneration of the Directors will be determined based on their job duties and responsibilities, experience, job performance and the prevailing market condition.

Pursuant to the Corporate Governance Code provision B.1.5, for the 2018 Financial Year, the remuneration of the members of the senior management, including the executive Directors, of the Company by remuneration band is set out below:

Remuneration band (RMB'000)	Number of individuals
0 to 500	2
501 to 1,000	1
1,001 to 1,500	1
1,501 to 2,000	5
2,001 to 2,500	2
2,501 to 3,000	0
3,001 to 3,500	0
3,501 to 4,000	2
4,001 to 4,500	1

RETIREMENT SCHEME

The Group operates a mandatory provident fund scheme ("**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. In accordance with the MPF Scheme, each of the employers and employees is required to make contributions of 5% of the employees' relevant income to the scheme, subject to a cap of monthly relevant income of HK$30,000. Contributions made to the scheme are vested immediately.

The employees of the subsidiaries of the Group in the PRC and Singapore participate in the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their salaries to these schemes to finance the benefits. The only obligation of the Group in respect to these schemes is the required contributions under the schemes.

For the 2018 Financial Year, the Group's total contributions to the retirement schemes charged in the profit or loss statement amounted to approximately RMB38.9 million (2017: approximately RMB34.1 million). Details of the Group's retirement benefit scheme are set out in note 46 to the consolidated financial statements of this annual report.

MANAGEMENT CONTRACTS

Other than employment contract with employees of the Group, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed with any individual, company or body corporate for the 2018 Financial Year by the Group.

CONTRACTUAL ARRANGEMENTS

A. 51% interest of Jinan Shijiyinghua Experiment School

Information about the operating subsidiaries

Jinan Shijiyinghua Experiment School* (濟南世紀英華實驗學校) ("**Yinghua School**") is a boarding school providing high-end K-12 Education, comprising primary school, middle school and high school, in the PRC. The interest in Yinghua School is held by Jinan Baofei Enterprise Management Company Limited* (濟南寶飛企業管理有限公司) ("**Jinan Baofei**"). The registered shareholders of Jinan Baofei are Wuxi Zhiye Constructions Engineering Limited* (無錫市置業建築工程有限公司) ("**Zhiye Company**") and First Capital Education Management (Shenzhen) Company Limited* (首控教育管理(深圳)有限公司) ("**FC Education**"). Zhiye Company and FC Education, respectively, held 49% and 51% equity interest in Jinan Baofei.

For the 2018 Financial Year, the revenue of Yinghua School amounted to approximately RMB71.2 million (2017: approximately RMB63.7 million). As at 31 December 2018, the total assets of Yinghua School amounted to approximately RMB222.2 million (31 December 2017: approximately RMB190.9 million).

Pursuant to the sales and purchase agreement, the vendor shall warrant that the profit after adjustment of Yinghua School prepared in accordance with HKFRSs for each of the three financial years ended/ending 31 December 2016, 2017 and 2018 shall not be less than RMB20.0 million, RMB26.0 million and RMB33.8 million, respectively ("**Yinghua Guarantee**"). Should the proportion of the deficit of the actual adjusted profit to the Yinghua Guarantee for any year from 2016 to 2018 is greater than 10%, the Group is entitled to demand a compensation by the vendor.

The actual adjusted profit of Yinghua school met the target for the financial years ended 31 December 2016, 2017 and 2018 and no compensation has been made to the Group.

Reasons for the contractual arrangements

Under the current laws and regulations of the PRC, foreign investors are prohibited from investing in primary and middle schools in the PRC offering compulsory education for students from grades one to nine. Foreign investments in high school education are also restricted to cooperation with PRC domestic parties who shall play a dominant role in the cooperation. This means that (i) the principal or other chief executive officer of the schools shall be a PRC national; and (ii) the representative 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.

In light of the aforementioned foreign investment restrictions in the primary and middle schools and high school education business in the PRC, the Group entered into contractual arrangements with Jinan First Capital Education Consulting Company Limited* (濟南首控教育諮詢有限公司) ("**Jinan WOFE**"), FC Education, Zhiye Company, Jinan Baofei and Yinghua School. Through such contractual arrangements, the Group exercises control over Yinghua School and its financial results, the economic benefits and risks of the business flow to the Group. The structured contracts under the contractual arrangements are used solely for addressing the abovementioned foreign ownership restriction and are narrowly tailored to achieve the Group's business purpose. If it becomes permissible under the relevant PRC laws, rules and regulations for the Group to hold the interest in Yinghua School and to engage in the business, the Group will exercise the options under the exclusive option agreement as soon as practicable and the structured contracts shall be terminated.

Contractual arrangements in place

The contractual arrangements that were in place as at 31 December 2018 are as follows:

(a) the equity pledge agreements entered into among Jinan WOFE, Jinan Baofei, Zhiye Company and FC Education, pursuant to which Zhiye Company and FC Education shall pledge all of their respective equity interests in Jinan Baofei to Jinan WOFE as security for their performance and/or that of Jinan Baofei under the exclusive option agreement and such other agreements as concluded to supplement the abovementioned agreements.

(b) the shareholders' entrustment letters and authorization letters entered into (i) between Zhiye Company and Jinan WOFE and (ii) between FC Education and Jinan WOFE, pursuant to which Zhiye Company and FC Education shall irrevocably authorize Jinan WOFE to act on their behalf in all matters in relation to their respective equity interests in Jinan Baofei, including, among others, attending shareholders' meeting, exercising voting rights in the shareholders' meeting, signing minutes of shareholders' meeting and shareholders' resolutions.

(c) the exclusive option agreements entered into among Jinan WOFE, Jinan Baofei, Zhiye Company and FC Education, pursuant to which Zhiye Company and FC Education shall grant to Jinan WOFE irrevocable options to acquire all or part of their respective equity interests in Jinan Baofei.

(d) the exclusive business cooperation agreement entered into between Jinan WOFE, Yinghua School and Jinan Baofei, pursuant to which Yinghua School shall engage Jinan WOFE on an exclusive basis to provide consultancy services to it, including but not limited to daily management operation, staff training, technology support and marketing strategies.

For the 2018 Financial Year, there was no material change in the contractual arrangements and none of the contractual arrangements has been unwound as none of the restrictions that led to the adoption of structured contracts under the contractual arrangements has been removed.

We have been advised by our PRC legal advisor that the contractual arrangements did not violate relevant PRC laws and regulations.

B. 58.3% interest of Xishan Schools

Information about the operating subsidiaries

Xishan Schools include four schools (i.e., Fuqing Xishan School* (福清西山學校), Fuqing Xishan Vocational and Technical School* (福清西山職業技術學校), Jiangxi Xishan School* (江西省西山學校) and Xishan Education Group* (西山教育集團)) comprising various kindergarten, primary schools, middle schools, high schools and vocational and technical school in the PRC. The four schools are held by Fuqing Guowen Education Management Company Limited* (福清市國文教育管理有限公司) ("**Fujian Company**") and Jinxian Xishan Education Management Company Limited* (進賢縣西山教育管理有限公司) ("**Jiangxi Company**"), respectively, which are in turn held by Fuzhou Xishan Education Management Company Limited* (福州市西山教育管理有限公司) ("**Xishan Education**", together with Xishan Schools, Fujian Company and Jiangxi Company, the "**Xishan Group**"). The registered shareholders of Xishan Education are Mr. Zhang Wenbin, Mr. Lin Bingguo, and FC Education. For further particulars of Xishan Schools and registered shareholders of Xishan Education, please refer to the announcement of the Company dated 22 November 2016.

For the 2018 Financial Year, the revenue of Xishan Schools amounted to approximately RMB179.6 million (2017: approximately RMB153.6 million). As at 31 December 2018, the total assets of Xishan Schools amounted to approximately RMB778.7 million (31 December 2017: approximately RMB836.5 million).

Pursuant to the sales and purchase agreement, the vendors warrant that the adjusted consolidated EBITDA of Xishan Schools prepared in accordance with HKFRSs for each of the three financial years ended/ending 31 December 2017, 2018 and 2019 shall not be less than RMB50.0 million, RMB65.0 million and RMB85.0 million, respectively ("**Xishan Guarantee**"). Should the proportion of the deficit of the actual adjusted EBITDA to the Xishan Guarantee for any year from 2017 to 2019 is greater than 7%, the Group shall be entitled to demand a compensation by the vendors.

The actual adjusted consolidated EBITDA of Xishan Schools met the target for the financial year ended 31 December 2017 and 2018 and no compensation has been made to the Group.

Reasons for the contractual arrangements

Under the current laws and regulations of the PRC, foreign investors are prohibited from investing in primary and middle schools in the PRC offering compulsory education for students from grades one to nine. Foreign investments in pre-school education and high school education are also restricted to cooperation with PRC domestic parties who shall play a dominant role in the cooperation. This means that (i) the principal or other chief executive officer of the schools shall be a PRC national; and (ii) the representative of the domestic party shall account for not 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.

In light of the aforementioned foreign investment restrictions in the primary and middle schools and pre-school and high school education business in the PRC, the Group entered into contractual arrangements with Fuzhou Quanyue Education Consulting Company Limited* (福州全悅教育諮詢有限公司) ("**Fuzhou WOFE**"), Xishan Education, the registered shareholder of Xishan Education, Fujian Company, Jiangxi Company and Xishan Schools. Through such contractual arrangements, the Group exercises control over Xishan Schools and their financial results, the economic benefits and risks of the business flow to the Group. The structured contracts under the contractual arrangements are used solely for addressing the abovementioned foreign ownership restriction and are narrowly tailored to achieve the Group's business purpose. If it becomes permissible under the relevant PRC laws, rules and regulations for the Group to hold the interest in Xishan Schools and to engage in the business, the Group will exercise the options under the exclusive option agreement as soon as practicable and the structured contracts shall be terminated.

Contractual arrangements in place

The contractual arrangements that were in place as at 31 December 2018 are as follows:

(a) the equity pledge agreements entered into among Fuzhou WOFE, Xishan Education and the registered shareholders of Xishan Education, pursuant to which the registered shareholders of Xishan Education shall pledge all of their respective equity interests in Xishan Education to Fuzhou WOFE as security for their performance and/or that of Xishan Education under the exclusive option agreement and such other agreements as concluded to supplement the abovementioned agreements.

(b) the shareholders' entrustment letters and authorization letters entered into among Fuzhou WOFE, Xishan Education and the registered shareholders of Xishan Education, pursuant to which the registered shareholders of Xishan Education shall irrevocably authorize Fuzhou WOFE to act on their behalf in all matters in relation to their respective equity interests in Xishan Education, including, among others, attending shareholders' meeting, exercising voting rights in the shareholders' meeting, signing minutes of shareholders' meeting and shareholders' resolutions.

(c) the exclusive option agreements entered into among Fuzhou WOFE, Xishan Education and the registered shareholders of Xishan Education, pursuant to which the registered shareholders of Xishan Education shall grant Fuzhou WOFE an irrevocable options to acquire all or part of their respective equity interests in Xishan Education.

(d) the equity pledge agreements entered into among Fuzhou WOFE, Xishan Education and the subsidiaries wholly-owned by Xishan Education, pursuant to which Xishan Education shall pledge all of its respective equity interests in Fujian Company and Jiangxi Company to Fuzhou WOFE as security for its performance and/or that of Fujian Company and Jiangxi Company under the exclusive option agreement and such other agreements as concluded to supplement the abovementioned agreements.

(e) the shareholders' entrustment letters and authorization letters entered into among Fuzhou WOFE, Xishan Education and the subsidiaries wholly-owned by Xishan Education, pursuant to which Xishan Education shall irrevocably authorize Fuzhou WOFE to act on its behalf in all matters in relation to its respective equity interests in Fujian Company and Jiangxi Company, including, among others, attending shareholders' meeting, exercising voting rights in the shareholders' meeting, signing minutes of shareholders' meeting and shareholders' resolutions.

(f) the exclusive option agreements entered into among Fuzhou WOFE, Xishan Education and the subsidiaries wholly-owned by Xishan Education, pursuant to which Xishan Education shall grant Fuzhou WOFE irrevocable options to acquire all or part of its respective equity interests in Fujian Company and Jiangxi Company.

(g) the exclusive business cooperation agreement entered into between Fuzhou WOFE and Xishan Group, pursuant to which Xishan Group shall engage Fuzhou WOFE on an exclusive basis to provide consultancy services to them, including but not limited to daily management operation, staff training, technology support and marketing strategies.

For the 2018 Financial Year, there were no material change in the contractual arrangements and none of the contractual arrangements has been unwound as none of the restrictions that led to the adoption of structured contracts under the contractual arrangements has been removed.

We have been advised by our PRC legal advisor that the contractual arrangements did not violate relevant PRC laws and regulations.

C. Risks relating to the contractual arrangements

The Group considers that the following risks are associated with the contractual arrangements entered into by the Group in respect of the acquisitions of interests of Yinghua School and Xishan Schools:

– there is no assurance that the structured contracts under the contractual arrangements would comply with future changes in the regulatory requirements in the PRC and the PRC government may determine that the structured contracts do not comply with the applicable regulations;

– the structured contracts may not be as effective in providing control over and entitlement to the economic benefits in the schools as compared to direct ownership;

– the Group's ability to acquire the entire equity interest in or assets of the schools may be subject to various limitations and substantial costs;

– structured contracts may be subject to scrutiny by the PRC tax authorities, and any finding that the schools owes additional taxes could substantially reduce the consolidated net income of the schools and the value of the Group's investments in the schools; and

– the Group would not be able to purchase any insurance to cover the risk relating to the structured contracts due to the unavailability of relative insurance products in the market.

In order to have effective control over and to safeguard the assets of the schools, the structured contracts provide that without prior written consent of the Group, there shall be no sale, transfer, mortgage or disposal of in any manner any assets, whether tangible or intangible, legitimate interests in the business or revenue of the schools or creation of any encumbrance thereon.

SIGNIFICANT LEGAL PROCEEDINGS

For the 2018 Financial Year, the Group had not been involved in any significant legal proceedings or arbitration. To the best of the knowledge and belief of the Directors, there are no significant legal proceedings or claims pending or threatened against the Group.

AUDITOR

The consolidated financial statements of the Group for the 2018 Financial Year have been audited by Deloitte Touche Tohmatsu. A resolution to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company will be proposed for approval by the Shareholders at the forthcoming AGM.

REVIEW BY THE AUDIT COMMITTEE

The Audit Committee has reviewed the audited consolidated financial statements of this annual report. The Audit Committee comprises three INEDs (namely Mr. Chu Kin Wang, Peleus, Dr. Li Zhiqiang and Mr. Wang Song) and one non-executive Director (namely Mr. Li Hua).

ANNUAL GENERAL MEETING

The Company will hold an annual general meeting on Wednesday, 5 June 2019. Notice of the forthcoming AGM will be published and despatched to the Shareholders in accordance with the Articles of Association and the Listing Rules as soon as practicable.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, both dates inclusive, during which period no transfer of Shares will be registered. In order to qualify for attending the forthcoming AGM, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 30 May 2019, for registration.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual report of the Company for the 2018 Financial Year, in both English and Chinese versions, will be despatched to the Shareholders according to their choice of means of receipt and language of Corporate Communications and will also be available on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.cfcg.com.hk.

APPRECIATION

The Group would like to express its sincere appreciation for the unremitted effort and dedication made by the Board, the management of the Group and all of its staff members, as well as the continuous support from the Shareholders, the government, business partners, professional advisers and loyal customers.

By Order of the Board
China First Capital Group Limited
Wilson SEA
Chairman and Executive Director

Hong Kong
29 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

The Board is committed to promote good corporate governance to safeguard the interests of the Shareholders and to enhance the Group's performance. The Group believes that conducting its businesses in an open and responsible manner and following good corporate governance practices serve its long-term interests and those of its Shareholders.

CORPORATE GOVERNANCE PRACTICES

For the 2018 Financial Year and up to the date of this annual report, the Company has complied with the Corporate Governance Code contained in Appendix 14 to the Listing Rules so as to enhance the corporate governance standard of the Company.

The Board as a whole is responsible for performing the corporate governance duties set out in the Corporate Governance Code. The Board reviews at least annually the corporate governance practices of the Company to ensure its continuous compliance with the Corporate Governance Code and make appropriate changes if considered necessary. For the 2018 Financial Year, the Board has performed the corporate governance duties set out in the Corporate Governance Code.

None of the Directors is aware of any information which would reasonably indicate that the Company was not in compliance with the Corporate Governance Code for the 2018 Financial Year and up to the date of this annual report.

DIRECTORS

The overall management of the business of the Group is delegated to the Board. The Board is responsible for the formulation of strategic, management and financial objectives of the Group and ensuring that the interest of Shareholders including those minority Shareholders are protected. Daily operations and administration of the Group are delegated to the executive Directors and the management of the Company.

Board of Directors

The Board currently comprises a combination of executive Directors, non-executive Director and INEDs. As at the date of this annual report, the composition of the Board and Board committees is as follows:

	Board Committees				
Directors	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Strategy Committee**	**Risk Management Committee**
Executive Directors					
Dr. Wilson SEA *(Chairman)*			C	C	C
Mr. ZHAO Zhijun *(Co-CEO)*		M		M	
Ms. LI Dan		M	M		
Dr. ZHU Huanqiang *(Co-CEO)*				M	M
Non-Executive Director					
Mr. LI Hua	M				M
Independent Non-Executive Directors					
Mr. CHU Kin Wang, Peleus	C	M	M		M
Dr. LI Zhiqiang	M	M	M	M	
Mr. WANG Song	M	C	M	M	

Notes:

C – Chairman M – Member

Profiles of the Directors are set out in Profiles of Directors and Senior Management of this annual report and are published on the website of the Company.

The Board believes that the composition of the executive and non-executive Directors is reasonable and adequate to provide sufficient checks and balances that safeguard the interests of Shareholders and the Group. The non-executive Directors provide the Group with diversified expertise and experience. Their views and participation in Board and committee meetings bring independent judgement and advice on issues relating to the Group's strategies, performance, conflicts of interest and management process, in order to ensure that the interests of all Shareholders are taken into account. One of the INEDs, Mr. Chu Kin Wang, Peleus, possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

The Board members have no financial, business, family or other material/relevant relationship with each other.

The Group provides briefings and other trainings to develop and refresh the Directors' knowledge and skills. The Group together with its legal counsel, continuously update Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

For the 2018 Financial Year, the Company provided training material to the Directors covering various topics relating to as Listing Rules, the SFO, and Companies Ordinance (Chapter 622 of the laws of Hong Kong). All the Directors (being Dr. Wilson Sea, Mr. Zhao Zhijun, Ms. Li Dan, Dr. Zhu Huanqiang, Mr. Li Hua, Mr. Chu Kin Wang, Peleus, Dr. Li Zhiqiang and Mr. Wang Song) received directors' training (part of the trainings are provided by the Hong Kong legal advisor of the Company). Mr. Tang Mingyang, Mr. Yan Haiting and Mr. Chen Gang also received the training before their resignations.

Board Meetings

The Board meets at least twice a year regularly and additional meetings will be convened when deemed necessary by the Board.

Notices of regular Board meetings will be served to all the Directors at least 14 days before the meeting. For all other Board meetings, reasonable notice period will be given. Notices and agendas of the Board meetings are prepared by the Company Secretary and/or the senior management of the Company as delegated by the Chairman. All the Directors are given the opportunity to include any matters which they believe to be appropriate in the agenda of the Board meetings.

Agenda and relevant documents of Board meetings with adequate background information and supporting analysis are made available to the Directors at least three days before the intended date of the Board meeting. All the Directors are given separate and independent access to the senior management of the Company for further information and enquiries. The Company Secretary and/or the senior management of the Company will provide the Board and Board committees with advice on corporate governance, statutory compliance and financial matters.

Any material matters that would have conflicts of interest between the Directors/substantial Shareholders and the Company will be dealt with at the Board meetings. Pursuant to the Articles of Association, a Director is not entitled to vote on (nor is counted in the quorum) any resolution of the Board in respect of any contract or arrangement or any other proposal whatsoever in which he or any of his associates (including any person who would be deemed to be an "associate" of the Directors under the Listing Rules) has any material interest, except under certain special circumstances. The chairman of the Board meeting is required to ensure that each Director is aware of such requirement at each Board meeting and their responsibilities in making proper declaration of interest at the Board meeting when conflicts of interest arise.

Directors have access to the advice and services of the Company Secretary and relevant officers of the Company in relation to the Board procedures. Draft minutes of Board/Board committee meetings shall record in sufficient details of the matters considered by the participants of such meetings and decisions reached and then be forwarded to the participants for comments within a reasonable time after the meetings. The final versions of minutes of Board/Board committee meetings are kept by the Company Secretary, which are open for inspection by any of Directors at any reasonable time on reasonable notice.

Board members are provided with complete, adequate and timely information to allow the Directors to fulfill their duties properly. Directors may seek independent professional advice at the Company's expense, if necessary, with the approval of the Board.

The Company has arranged Directors and officers liability insurance in respect of any legal actions which may be taken against Directors and management in execution and discharge of their duties or in relation thereto.

ATTENDANCE RECORDS AT MEETINGS

The attendance records of the Directors at the meetings of the Board, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Strategy Committee, the Risk Management Committee and the general meetings for the 2018 Financial Year are set out in the following table:

	Meetings attended/Meetings held						
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Strategy Committee**	**Risk Management Committee**	**General meeting**
Executive Directors							
Dr. Wilson SEA *(Chairman)*	7/7	N/A	N/A	3/3	1/1	1/1	0/1
Mr. TANG Mingyang[1]	4/7	N/A	N/A	N/A	1/1	N/A	0/1
Mr. ZHAO Zhijun *(Co-CEO)*	5/7	N/A	2/3	N/A	0/1	N/A	1/1
Ms. LI Dan	4/7	N/A	3/3	3/3	N/A	N/A	1/1
Dr. ZHU Huanqiang[2] *(Co-CEO)*	5/5	N/A	N/A	N/A	1/1	1/1	1/1
Mr. YAN Haiting[3]	2/2	N/A	N/A	N/A	0/0	0/0	0/0
Non-Executive Director							
Mr. LI Hua	7/7	3/3	N/A	N/A	N/A	1/1	1/1
Independent Non-Executive Directors							
Mr. CHU Kin Wang, Peleus	6/7	3/3	2/3	2/3	N/A	1/1	1/1
Dr. LI Zhiqiang	7/7	3/3	3/3	3/3	1/1	N/A	1/1
Mr. WANG Song[4]	4/4	2/2	0/0	0/0	0/0	N/A	0/0
Mr. CHEN Gang[5]	3/3	1/1	3/3	3/3	1/1	N/A	1/1

Notes:

1. Until 29 March 2019
2. Since 1 February 2018
3. Until 1 February 2018
4. Since 15 June 2018
5. Until 15 June 2018

CHAIRMAN AND CO-CHIEF EXECUTIVE OFFICERS

To ensure a balance of power and authority, the roles of the Chairman and the Co-CEOs are segregated and not exercised by the same individual. The Board is leaded by the Chairman, Dr. Wilson Sea. He is responsible for the leadership and effective running of the Board and ensuring that all material issues are discussed by the Board in a timely and constructive manner. The two Co-CEOs, Mr. Zhao Zhijun and Dr. Zhu Huanqiang, are respectively responsible for the development, operations and management of different business segments of the Group. In particular, Mr. Zhao Zhijun focuses on developing and managing the automotive parts business of the Group while Dr. Zhu Huanqiang focuses on developing and managing the education operation business and financial services business of the Group.

With the support of the Company Secretary and the senior management of the Company, the Chairman is committed to ensuring that all the Directors are properly briefed on issues to be proposed at the Board meetings and be provided with adequate information in a timely manner.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board at all times meet the requirements of the Listing Rules relating to the appointment of at least three INEDs, representing at least one-third of the Board and with at least one of them possessing appropriate professional qualifications, or accounting or related financial management expertise throughout the 2018 Financial Year.

The Company has received an annual written confirmation (the "**Written Confirmation**") from Mr. Chu Kin Wang, Peleus and Mr. Wang Song, INEDs, of their independence pursuant to Rule 3.13 of the Listing Rules and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgement.

As at the Latest Practicable Date, the Company has not received the Written Confirmation from Dr. Li Zhiqiang, INED. The Company has tried to contact Dr. Li Zhiqiang without success and the Board will closely monitor any further information relating to Dr. Li Zhiqiang.

In accordance with the Listing Rules and Articles of Association, the Board will take appropriate action in due course, for the purpose of ensuring good corporate governance.

MANAGEMENT FUNCTION

The Articles of Association set out matters which are specifically reserved to the Board for its decision. In principal, the executive Directors constantly meet and participate in senior management meetings on a regular basis to keep abreast of the latest operations and performance of the Group and to monitor and ensure that the management carries out the directions and strategies set by the Board correctly and appropriately.

RESPONSIBILITIES OF DIRECTORS

The Company and the Board require each Director to understand his responsibilities as a Director and the business, operating activities and development of the Company. Every Director is required to devote sufficient time and involvement in the affairs of the Board and the material matters of the Company and to serve the Board with such degree of care and due diligence given his own expertise, qualification and professionalism.

A comprehensive compliance manual has been provided to each Director and will be updated from time to time. All Directors have been updated and briefed the changes in legal and regulatory matters to ensure that they have a proper understanding of the operations and the business of the Company and that they are fully aware of their responsibilities under the applicable laws and regulations.

Each executive Director is responsible for the management of the different functions of the business of the Group. The non-executive Directors (including the INEDs) attend the Board meetings and give their opinions on the business strategy of the Company and review the financial and operation performance of the Group.

The INEDs serve the relevant function of bringing independent judgement on strategic direction, development, performance and risk management of the Group. The INEDs are a majority of members of the Audit Committee, the Remuneration Committee and the Nomination Committee.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board is authorized under the Articles of Association to appoint any person as a Director to fill a casual vacancy on or as an additional member of the Board. Suitable candidates who are experienced and competent and able to fulfill the fiduciary duties and duties of skill, care and diligence would be recommended to the Board.

Each of the executive Directors was appointed for an initial term of three years and each service agreement will continue to be in effect thereafter until terminated by either party by giving to the other party not less than three months' prior notice in writing. Each of the non-executive Directors (including INEDs) was appointed for an initial term of three years and is able to continue pursuant to their respective contract's terms. All Directors are subject to retirement by rotation and are eligible for re-election pursuant to the Articles of Association.

Pursuant to the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following AGM and shall then be eligible for re-election.

At every AGM, one-third of the Directors, including the Chairman, shall be subject to retirement by rotation and re-election by the Shareholders. The Directors appointed by the Board who are subject to retirement and re-election as mentioned above shall be taken into account in calculating the total number of Directors for the time being but shall not be taken into account in calculating the number of Directors who are to retire by rotation. All Directors who are eligible for re-election shall have their biographical details made available to the Shareholders to enable them to make an informed decision on their re-election. Any appointment, resignation, removal or re-designation of Directors shall be timely disclosed to the Shareholders by announcement and shall include in such announcement, the reasons given by the Director for his resignation.

BOARD COMMITTEES

The Board has established five Board committees, namely, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Strategy Committee and the Risk Management Committee, to assist the Board for overseeing particular aspects of the Group's affairs. The Board is responsible for determining the policy for the corporate governance of the Company and the terms of reference/duties of the Board/committees of the Company. The terms of reference setting out the principles, procedures and arrangements of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Risk Management Committee are available on the websites of the Stock Exchange and the Company. The Board committees report to the Board their decisions and recommendations at the Board meetings.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Audit Committee

The Company has established the Audit Committee pursuant to Rules 3.21 and 3.22 of the Listing Rules on 19 October 2011, with written terms of reference in compliance with the requirements of the Corporate Governance Code and published on the websites of both the Stock Exchange and the Company. The members of the Audit Committee are Mr. Chu Kin Wang, Peleus, Mr. Li Hua, Dr. Li Zhiqiang and Mr. Wang Song. Mr. Chu Kin Wang, Peleus is the chairman of the Audit Committee.

The primary duties of the Audit Committee are to review, oversee and supervise the effectiveness of the Group's financial reporting process and internal control systems.

The Audit Committee will hold meetings at least twice a year.

For the 2018 Financial Year, three meetings of the Audit Committee were held. The Audit Committee has, amongst other things, reviewed the interim and annual results of the Company and the internal control matters of the Company. The Audit Committee has reviewed the scope and results of the audit and its cost effectiveness as well as the independence and objectivity of the Company's auditors. The Audit Committee has recommended to the Board on the re-appointment of Deloitte Touche Tohmatsu as the Company's external auditors for the coming year and the related resolution shall be put forth at the forthcoming AGM.

The Audit Committee has, with the management in conjunction with the auditors, reviewed the audited consolidated financial statements of the Group for the 2018 Financial Year and the accounting principles and practices adopted by the Group. The annual report for the 2018 Financial Year has been reviewed by the Audit Committee.

For the 2018 Financial Year, the Group's external auditor, Deloitte Touche Tohmatsu, provided interim review services, annual audit services and other non-audit services. For the 2018 Financial Year, the total fees paid/payable in respect of services provided by the Group's external auditor are amounted to RMB5,798,000:

The Audit Committee considers that the provision of non-audit services by the Company's external auditor, Deloitte Touche Tohmatsu, does not impair their judgement or independence for the audit acting in the capacity as auditor of the Company.

Nomination Committee

The Company has established the Nomination Committee pursuant to Rules A.5.1 and A.5.2 of Appendix 14 to the Listing Rules on 19 October 2011, with written terms of reference in compliance with the Corporate Governance Code and published on the websites of the Stock Exchange and the Company. The members of the Nomination Committee are Dr. Wilson Sea, Ms. Li Dan, Mr. Chu Kin Wang, Peleus, Dr. Li Zhiqiang and Mr. Wang Song. Dr. Wilson Sea is the chairman of the Nomination Committee.

The Nomination Committee is responsible for formulating policies and making recommendations to the Board on nominations, appointment of Directors and Board succession. For the 2018 Financial Year, the Nomination Committee has, among other things, reviewed the selection procedures for candidates for directorship after considering different criteria including appropriate professional knowledge and industry experience. The Nomination Committee has also reviewed the size, structure and composition of the Board and assessed the independence of the INEDs. The Nomination Committee is provided with sufficient resources to perform its duties and it can seek independent professional advice at the Company's expense if necessary.

The Nomination Committee holds a meeting at least once a year.

For the 2018 Financial Year, three meetings of the Nomination Committee were held. The Nomination Committee assessed the independence of Mr. Chu Kin Wang, Peleus, Dr. Li Zhiqiang, Mr. Chen Gang and Mr. Wang Song, reviewed the members, structure and composition of the Board and discussed the sufficiency of time and efforts devoted to the performance of duties by the Directors. The Nomination Committee also recommended to the Board the Directors who will retire, being eligible, offer themselves for re-election at the AGM and the candidates suitably qualified to become members of the Board.

Diversity Policy and Measures

The Company is committed to ensure an appropriate balance in the diversity of skills, experience and perspectives and angles of the Board members so as to support the execution of business strategies and efficient operation of the Board. The Company considered that "Diversity" is a broad idea. When designing the combination of the Board members, the Company may consider the diversity of members in various aspects, including but not limited to sex, age, culture and education background, professional experience, skills, knowledge and terms of service. The Board appoints its members based on their talents and in accordance with the business mode and specific up-to-date needs of the Company. It also refers to the objective conditions and the benefits of the diversity of the Board members in selecting candidates. The final decision is made upon the advantages of the candidates and their possible contribution to the Board.

Remuneration Committee

The Company has established the Remuneration Committee pursuant to Rules 3.25 and 3.26 of the Listing Rules on 19 October 2011, with written terms of reference in compliance with the Corporate Governance Code and published on the websites of the Stock Exchange and the Company. The members of the Remuneration Committee are Mr. Wang Song, Mr. Zhao Zhijun, Ms. Li Dan, Mr. Chu Kin Wang, Peleus and Dr. Li Zhiqiang. Mr. Wang Song is the chairman of the Remuneration Committee.

The Remuneration Committee holds a meeting at least once a year.

For the 2018 Financial Year, three meetings of the Remuneration Committee were held. The Remuneration Committee reviewed the structure of remuneration for executive Directors and the senior management of the Company and assessed their performance.

The Remuneration Committee is responsible for the determination, within agreed terms of reference, of specific remuneration packages for executive Directors and the senior management of the Company, including salaries, retirement benefits, bonuses, long-term incentives, benefits in kind and any compensation payments. The Remuneration Committee is committed to bringing independent insight and scrutiny to the development and review process of the Group with regards to remuneration. No Director is allowed to take part in any discussion about his own remuneration.

Particulars of the Directors' remuneration are set out in note 14 to the consolidated financial statements of this annual report. The Directors' fee shall be subject to Shareholders' approval at general meetings. Other emoluments shall from time to time be determined by the Board with reference to the Directors' duties and responsibilities and subject to a review by the Remuneration Committee.

Strategy Committee

The Board established the Strategy Committee on 28 March 2013 with an aim to adopt the needs of the strategic development of the Company, enhance the core competitiveness, ensure the development plans, improve the investment decision form, strengthen the scientific decision-making, uplift the efficiency in investment decisions and quality of decisions and optimize the management structure. The members of the Strategy Committee are Dr. Wilson Sea, Mr. Zhao Zhijun, Dr. Zhu Huanqiang, Dr. Li Zhiqiang and Mr. Wang Song. Dr. Wilson Sea is the chairman of the Strategy Committee.

The Strategy Committee holds a meeting at least once a year.

For the 2018 Financial Year, one meeting of the Strategy Committee was held. The Strategy Committee reviewed the overall strategy and development plan of the Company.

Risk Management Committee

The Board established the Risk Management Committee on 31 December 2015 with an aim to assisting the Board in (i) deciding the risk level and risk appetite of the Group; and (ii) considering the Company's risk management, internal control systems, environmental, social and governance strategies and giving directions where appropriate. The members of the Risk Management Committee are Dr. Wilson Sea, Dr. Zhu Huanqiang, Mr. Li Hua and Mr. Chu Kin Wang, Peleus. Dr. Wilson Sea is the chairman of the Risk Management Committee.

The Risk Management Committee holds a meeting at least once a year.

For the 2018 Financial Year, one meeting of the Risk Management Committee was held. The Risk Management Committee reviewed, among others, the policies, guidelines and effectiveness of the work on risk management, internal control systems and environmental, social and governance of the Company.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Board acknowledges its responsibility for preparing the Group's financial statements for the 2018 Financial Year which give a true and fair view of the financial position of the Group and in accordance with the statutory requirements and applicable accounting standards. The Company's annual report is prepared and published in accordance with the Listing Rules and the Hong Kong Financial Reporting Standards in a timely manner. The Directors are provided with adequate information to enable them to make an informed assessment of financial and other information on matters for their approval.

The statement prepared by the auditors of the Company regarding their reporting responsibility to the Shareholders on the financial statements of the Group is set out in the Independent Auditor's Report of this annual report.

Risk management and internal control

The Group has in place the sound and effective internal controls to safeguard the Shareholders' investment and the assets of the Group. The Company has from time to time reviewed the effectiveness of the internal control systems in order to ensure that they meet with the dynamic and ever changing business environment. The Group will review the risk management and internal control systems at least once a year.

The main features of the risk management and internal control systems are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate risk management of the Group's business operations.

The Group has established a risk management framework, which consists of the Board, the Audit Committee, the Risk Management Committee and the senior management of the Company. The Board determines the nature and extent of risks that shall be taken in achieving the Group's strategic objectives, and has the overall responsibility for monitoring the design, implementation and the overall effectiveness of risk management and internal control systems.

The Group has formulated and adopted risk management policy in providing direction in identifying, evaluating and managing significant risks. The senior management of the Company at least once a year identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans are established and risk responsible persons are appointed for those significant risks.

For the 2018 Financial Year and up to the date of this annual report, the Group has set up an internal audit function. In addition, the Group has engaged an independent professional advisor to assist the Board, the Audit Committee and the Risk Management Committee to monitor the risk management and internal control systems of the Group continuously. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies will be reported to the Audit Committee and the Board on a timely basis to ensure that prompt remediation actions are taken.

For the 2018 Financial Year, the Board has, through the Audit Committee and Risk Management Committee, performed annual review on the effectiveness of the Group's risk management and internal control, covering financial, operational and compliance controls, including but not limited to the changes of the nature and seriousness of significant risk; the Group's ability to cope with its business transformation and changing external environment; the scope and quality of management's review on risk management and internal control systems; the extent and frequency of communication with the Board in relation to result of risk and internal control review, significant failures or weaknesses identified and their implication; and status of compliance with the Listing Rules. When the Board performed annual review, it also ensured that the resources, qualifications and experiences of staff, and training programmes and budgets received by staff of the Company's accounting, internal auditing and financial reporting function are enough. The Board considers the Group's risk management and internal control systems are effective and adequate.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Procedures and internal controls for the handling and dissemination of inside information

The Group complies with the requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the "Safe Harbours" as provided in the SFO. Before the information is fully disclosed to the public, the Group will ensure that the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact, in view of presenting information in a clear and balanced manner, which requires equal disclosure of both positive and negative facts.

SHAREHOLDERS' RIGHTS

Procedures for convening EGMs and putting forward proposals at general meetings

Pursuant to Article 58 of the Articles of Association, Shareholder(s) holding at the 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 (the "**Requisitionist(s)**") may, by written requisition (the "**Requisition**") to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in the Requisition. The Requisition shall be lodged with the Company's principal place of business in Hong Kong at Units 4501-02 & 12-13, 45/F., The Center, 99 Queen's Road Central, Hong Kong. The EGM shall be held within two months after the deposit of the Requisition. In the event that the Board fails to convene the EGM within 21 days after the deposit of the Requisition, the Requisitionist(s) 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.

Procedures for Shareholders to raise enquiries to the Board

Shareholders should direct their enquiries about their shareholdings to Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In respect of other enquiries, Shareholders may put forward enquiries to the Board through the Company's principal place of business in Hong Kong at Units 4501-02 & 12-13, 45/F., The Center, 99 Queen's Road Central, Hong Kong for handling.

COMMUNICATION WITH SHAREHOLDERS

Effective communication

The Board recognizes the importance of continuing communications with the Shareholders and strives to ensure the timeliness, completeness and accuracy of information disclosure to the Shareholders and to the protection in the interests of the Shareholders. As a channel to further promote effective communication, the Company has established a website, allowing the Shareholders to access updates on the Company's particulars where the Company's announcements, financial information and other information are posted.

The Board maintains an on-going dialogue with the Shareholders through general meetings of the Company to communicate with the Shareholders. The Chairman and all Directors would attend the general meetings to answer any questions from the Shareholders. Separate resolutions are proposed at general meetings on each substantially separate issue. A Shareholder is permitted to appoint any number of proxies to attend and vote in his stead. In accordance with the Articles of Association, (i) the notice of AGM would be sent to all Shareholders not less than 21 clear days and not less than 20 clear business days before the meeting, (ii) the notice of any EGM at which the passing of a special resolution is to be considered would be sent to all Shareholders not less than 21 clear days and not less than 10 clear business days before the meeting, and (iii) the notice of all other EGMs would be sent to all Shareholders not less than 14 clear days and not less than 10 clear business days before the meeting.

Voting by poll

The Articles of Association have set out the rights of Shareholders and procedures demanding and conducting a poll on resolutions at general meetings. Shareholders' rights to demand a poll have been specified in Corporate Communications to Shareholders and details of such rights of Shareholders are explained at the general meeting by the chairman of the meeting. In order to comply with the Listing Rules, all the general meetings will be voted by way of poll. The results of the poll, if any, are published on the websites of the Stock Exchange and the Company.

Amendment on the Company's Constitutional Documents

There is no amendment on the Company's memorandum and articles of association for the 2018 Financial Year.

COMPLIANCE WITH THE MODEL CODE

Code for securities transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Directors. Having made specific enquiries to the Directors and to the best of their knowledge, all Directors had complied with the required standards set out in the Model Code for the 2018 Financial Year.

The Company has also adopted the Model Code as the code for securities transactions by relevant employees to regulate dealings in securities of the Company by certain employees of the Company, or any of its subsidiaries and the holding companies who are considered to be likely in possession of unpublished inside information in relation to the Company or its securities. The Company has made specific enquiries to the relevant employees regarding non-compliance with the code for securities transactions by relevant employees for the 2018 Financial Year and they have confirmed their full compliance with the required standards set out in the said code for the 2018 Financial Year.

COMPANY SECRETARY

The Company has appointed Mr. Hung Man Yuk, Dicson as the Company Secretary, and Mr. Hung is responsible for all the secretarial services. Mr. Hung confirmed that for the 2018 Financial Year, he has taken not less than 15 hours of relevant professional training.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of Shareholders. The Board is responsible for reviewing the internal control policies and has delegated the day-to-day management of operational risks to the executive Directors.

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual results and interim results are announced on a timely basis.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Shareholders of China First Capital Group Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China First Capital Group Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 91 to 229, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") 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 judgment, were of most significance in our audit of the consolidated financial statements of the current year. 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 matter	How our audit addressed the key audit matter

Control over significant subsidiaries through contractual arrangements

Key audit matter

We identified the control over the Consolidated Affiliated Entities (as defined in Note 2 to the consolidated financial statements) through Contractual Arrangements (as defined in Note 2 to the consolidated financial statements) as a key audit matter due to part of its education business operated in the People's Republic of China ("**China**" or the "**PRC**", excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) controlled by the Group through structured contracts rather than direct legal ownership.

The Group exercises control over the Consolidated Affiliated Entities and enjoys all economic benefits of the Consolidated Affiliated Entities through the Contractual Arrangements.

Management's disclosures with regard to the judgement are set out in Note 5 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to the assessment of control over Consolidated Affiliated Entities through the Contractual Arrangements included:

- Reviewing contracts in relation to the Contractual Arrangements, and assessing whether the Group has controlling power over the Consolidated Affiliated Entities through the structured contracts and whether the Group is exposed, or has rights, to variable returns from its involvement with the Consolidated Affiliated Entities;

- Obtaining legal opinion from the Company's legal counsel that 1) the structured contracts as a whole and each are legal, valid and binding on the parties thereon; 2) the Group's entitlements to the economic benefits under the Contractual Arrangements are not subject to any legal or regulatory approvals in the PRC and are in compliance with the relevant PRC laws and regulations and are legally enforceable; 3) there is no legal impediment to the implementation of the Contractual Arrangements; 4) there are no laws and regulations disallowing foreign investors from using any agreements or contractual arrangements to gain control of the Consolidated Affiliated Entities; and

- Checking documents including but not limited to resolution documents and approval records on significant matters to validate that the Group exercises the control power through appointed directors and senior management to the Consolidated Affiliated Entities and made significant decision making activities of the Consolidated Affiliated Entities.

Key audit matter *(Continued)*	How our audit addressed the key audit matter *(Continued)*

Accounting for business combinations

We identified the accounting for business combinations in connection with acquisition of Xinjiang Edukeys and Tiantai Culture (all as defined in Note 50 to the consolidated financial statements), of which the Group obtained control over Xinjiang Edukeys and Tiantai Culture for the year ended 31 December 2018 and the purchase price allocation exercise was finalised during the year, as a key audit matter due to the inherent complexity underlying the transactions and level of estimation uncertainty associated with forecasting future cash flows that affect the purchase price allocation.

The Group appointed an independent qualified professional valuer who is not connected with the Group (the "**Valuer**") to aid the purchase price allocation process.

Management's disclosures with regard to the judgements and estimations are set out in Note 5 to the consolidated financial statements and the details relating to the two acquisitions are set out in Note 42 to the consolidated financial statements.

Our procedures in relation to the accounting for business combinations included:

- Understanding the key terms and rationale for the transaction through inspection of purchase agreements for terms that may impact the accounting for the acquisitions;
- Evaluating the Valuer's competence, capabilities and objectivity;
- Evaluating the appropriateness of the underlying valuation methodology;
- Evaluating key assumptions, such as expected cash flow streams, discount rate and growth rates, underlying in the valuations of Xinjiang Edukeys and Tiantai Culture by comparing them to the historical results and relevant industry forecasts;
- Involving our internal valuation specialist in assessing the key assumptions to the extent necessary;
- Performing sensitivity analysis; and
- Assessing whether the disclosures of the business combinations in the consolidated financial statements are sufficient and appropriate.

Key audit matter *(Continued)*	How our audit addressed the key audit matter *(Continued)*
Impairment assessment on goodwill and intangible assets with indefinite useful lives	
We identified the valuation of goodwill and intangible assets with indefinite useful lives arising from business combination as a key audit matter due to subjective valuation parameters used and judgement exercised by the Group for the impairment assessment. As at 31 December 2018, the closing balance of goodwill and intangible assets with indefinite useful lives arising from business acquisition amounted to RMB568,620,000 and RMB159,319,000, respectively, as disclosed in Notes 23 and 21 to the consolidated financial statements, respectively. As detailed in Notes 23 and 21, respectively, to the consolidated financial statements, the management conducted the impairment assessment of the goodwill and intangible assets with indefinite useful lives based on estimating the recoverable amount, i.e. value in use. The assessment requires the Group to estimate the future cash flows expected to arise from each cash-generating unit (the "**CGU**") and a suitable discount rate and growth rate in order to determine the value in use. For the year ended 31 December 2018, no impairment on goodwill nor on intangible assets with indefinite useful lives was recognised.	Our procedures in relation to the impairment assessment of the goodwill and intangible assets with indefinite useful lives included: • Understanding the Group's impairment assessment process, including the valuation model adopted, CGUs allocation, assumptions used and the involvement of the Valuer; • Evaluating the Valuer's competence, capabilities and objectivity; • Evaluating the appropriateness of the valuation model used to determine the recoverable amounts; • Evaluating the reasonableness of the budgeted cash flow forecasts prepared by the management; • Evaluating key assumptions, such as expected cash flow streams, discount rates and growth rates, underlying in the cash flow forecast of each CGU by conducting retrospective review by comparing them to the historical results and relevant industry forecasts; and • Performed sensitivity analysis.

Key audit matter *(Continued)*	How our audit addressed the key audit matter *(Continued)*

Valuation of loan and interest receivables

We identified the valuation of loan and interest receivables as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole.

As at 31 December 2018, the Group's loan and interest receivables amounted to RMB1,144,886,000 as disclosed in Note 27 to the consolidated financial statements.

Starting from 1 January 2018, the Group recognises lifetime expected credit loss for loan and interest receivables. The expected credit loss assessment is based on the internal credit rating, by reference to the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of the current as well as the forecast direction of conditions at the reporting date. The expected credit loss assessment involves high degree of uncertainties.

Management's disclosures with regard to the estimation are set out in Note 5 to the consolidated financial statements.

Our procedures in relation to the valuation of loan and interest receivables including:

- Discussing with the management and understanding the management's basis of estimation of allowance for loan and interest receivables;
- Understanding of the internal controls of the Group designed and implemented for the regular assessment of impairment on loan and interest receivables including those controls over the estimation of expected credit loss according to the requirements of HKFRS 9;
- Assessing the reasonableness of the management's expectation of the probability of default, loss given default and the exposure at default on loan and interest receivables;
- Assessing the accuracy of the management's estimate of the expected credit loss based on historical credit loss records, forecast of future conditions and with reference to other factors that have been taken into consideration by the management;
- Performing retrospective review of the management's estimation by comparing the estimates provided at 1 January 2018 to actual credit losses in the subsequent period.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of 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 of the Company 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.

Those charged with governance are responsible 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 judgment and maintain professional skepticism 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.

- 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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 the independent auditor's report is Zhu Chen.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue, comprising	6	**1,810,797**	1,865,247
– Sales of goods		**1,353,866**	1,530,210
– Provision of services		**375,847**	327,116
– Interest income		**81,084**	7,921
Cost of sales/services		**(1,305,351)**	(1,389,195)
Gross profit		**505,446**	476,052
Other income and expenses	8	**93,718**	21,143
Other gains and losses	9	**(92,983)**	8,223
Impairment losses, net of reversal	26, 27	**(61,303)**	4,819
Fair value changes of financial assets measured at fair value through profit or loss ("**FVTPL**")	10	**(906,072)**	(70,835)
Fair value changes of contingent consideration payables		**(251)**	–
Fair value changes of embedded derivative components of convertible bonds	35	**(5,865)**	–
Selling and distribution expenses		**(108,862)**	(128,600)
Research and development expenditure		**(48,935)**	(46,180)
Administrative expenses		**(386,376)**	(442,566)
Finance costs	11	**(245,815)**	(128,428)
Share of results of associates	19	**222**	1,536
Share of results of joint ventures	20	**(92,405)**	(37,801)
Loss before tax	12	**(1,349,481)**	(342,637)
Taxation	13	**(6,890)**	42,766
Loss for the year		**(1,356,371)**	(299,871)
Other comprehensive income (expenses)			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		**66,871**	102,841
Fair value changes of available for sale ("**AFS**") investments		**–**	(41,850)
Reclassify to profit or loss upon impairment/disposal of AFS investments		**–**	51,661
Income tax relating to fair value changes of AFS investments		**–**	(1,619)
		66,871	111,033
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**81,205**	(287,603)
Other comprehensive income (expense) for the year, net of income tax		**148,076**	(176,570)
Total comprehensive expense for the year		**(1,208,295)**	(476,441)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Continued)

For the year ended 31 December 2018

	Note	**2018** **RMB'000**	2017 RMB'000
(Loss) profit for the year attributable to:			
Owners of the Company		**(1,386,813)**	(302,169)
Non-controlling interests		**30,442**	2,298
		(1,356,371)	(299,871)
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(1,230,657)**	(478,487)
Non-controlling interests		**22,362**	2,046
		(1,208,295)	(476,441)
Loss per share – Basic (RMB)	*16*	**(0.28)**	(0.07)
– Diluted (RMB)	*16*	**(0.28)**	(0.07)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*17*	**925,880**	859,385
Prepaid lease payments	*18*	**265,188**	272,159
Interests in associates	*19*	**4,658**	6,036
Interests in joint ventures	*20*	**1,017,421**	819,636
Intangible assets	*21*	**389,004**	254,683
AFS investments	*29*	**–**	616,184
Deposits for investments	*22*	**380,000**	380,000
Goodwill	*23*	**568,620**	365,380
Deferred tax assets	*24*	**11,924**	15,464
Financial assets measured at FVTPL	*29*	**386,413**	–
Other receivables	*26*	**76,032**	163,739
		4,025,140	3,752,666
CURRENT ASSETS			
Prepaid lease payments	*18*	**7,092**	6,803
Inventories	*25*	**137,638**	227,853
Property under development for sale	*42b*	**276,903**	–
Amounts due from joint ventures	*28a*	**40,259**	–
Trade and other receivables	*26*	**977,422**	738,022
Loan and interest receivables	*27*	**1,144,886**	511,963
Financial assets measured at FVTPL	*29*	**2,244,917**	2,868,614
Security account balances	*30*	**17,326**	7,969
Restricted bank balances	*31*	**625,263**	556,252
Bank balances and cash	*31*	**302,966**	686,477
		5,774,672	5,603,953
TOTAL ASSETS		**9,799,812**	9,356,619

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CURRENT LIABILITIES			
Trade and other payables	*32*	**1,806,309**	1,587,904
Amounts due to joint ventures	*28b*	**77,049**	103,270
Amount due to an associate	*33*	**2,499**	2,425
Borrowings – due within one year	*34*	**1,984,965**	1,377,104
Convertible bonds	*35*	**687,418**	–
Advance from customers		**–**	1,957
Embedded derivative components of convertible bonds	*35*	**13,373**	–
Income tax payable		**97,867**	62,499
Deferred income	*36*	**2,673**	142,586
Contract liabilities	*37*	**215,816**	–
Provisions	*38*	**4,014**	4,695
Contingent consideration payables	*40*	**66,261**	–
		4,958,244	3,282,440
NET CURRENT ASSETS		**816,428**	2,321,513
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,841,568**	6,074,179
NON-CURRENT LIABILITIES			
Other payables	*32*	**213**	324
Borrowings – due after one year	*34*	**1,066,423**	1,584,364
Convertible bonds	*35*	**–**	634,149
Embedded derivative components of convertible bonds	*35*	**–**	6,945
Deferred income	*36*	**42,706**	215,454
Contract liabilities	*37*	**177,866**	–
Long-term payables	*39*	**23,086**	27,496
Contingent consideration payables	*40*	**50,627**	29,923
Deferred tax liabilities	*24*	**140,475**	113,738
		1,501,396	2,612,393
NET ASSET		**3,340,172**	3,461,786

	Notes	2018 RMB'000	2017 RMB'000
OWNERS' EQUITY			
Share capital	*41*	**84,283**	80,096
Reserves		**2,678,766**	3,089,799
Equity attributable to:			
Owners of the Company		**2,763,049**	3,169,895
Non-controlling interests	*51*	**577,123**	291,891
		3,340,172	3,461,786

The consolidated financial statements on pages 91 to 229 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Dr. Wilson SEA
DIRECTOR

Dr. ZHU Huanqiang
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 *(Note a)*	AFS reserve RMB'000	Surplus reserve RMB'000 *(Note b)*	Translation reserve RMB'000	Development reserve RMB'000 *(Note c)*	Special reserve RMB'000 *(Note d)*	Retained earnings (accumulated losses) RMB'000	Sub-Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
		Reserves										
At 1 January 2017	74,941	2,426,403	42,917	–	34,240	6,868	–	–	236,696	2,747,124	287,767	3,109,832
(Loss) profit for the year	–	–	–	–	–	–			(302,169)	(302,169)	2,298	(299,871)
Exchange difference arising on translation of foreign operation	–	–	–	–	–	102,841	–	–	–	102,841	–	102,841
Fair value change of AFS investments	–	–	–	(41,850)	–	–	–	–	–	(41,850)	–	(41,850)
Reclassify to profit or loss upon impairment of AFS investments	–	–	–	51,661	–	–	–	–	–	51,661	–	51,661
Income tax relating to fair value change of AFS investments	–	–	–	(1,619)	–	–	–	–	–	(1,619)	–	(1,619)
Exchange difference arising on translation to presentation currency	–	–	–	–	–	(287,351)	–	–	–	(287,351)	(252)	(287,603)
Total comprehensive income (expenses) for the year	–	–	–	8,192	–	(184,510)	–	–	(302,169)	(478,487)	2,046	(476,441)
Issue of new shares	5,155	811,240	–	–	–	–	–	–	–	811,240	–	816,395
Capital injection from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–		5,750	5,750
Appropriation	–	–	–	–	1,473	–	8,028	–	(5,829)	3,672	(3,672)	–
Recognition of special reserve	–	–	–	–	–	–	–	6,250	–	6,250	–	6,250
At 31 December 2017	80,096	3,237,643	42,917	8,192	35,713	(177,642)	8,028	6,250	(71,302)	3,089,799	291,891	3,461,786
Adjustment *(Note 3.2)*	–	–	–	(8,192)	–	–	–	–	20,853	12,661	–	12,661
At 1 January 2018	80,096	3,237,643	42,917	–	35,713	(177,642)	8,028	6,250	(50,449)	3,102,460	291,891	3,474,447
(Loss) profit for the year	–	–	–	–	–	–	–	–	(1,386,813)	(1,386,813)	30,442	(1,356,371)
Exchange difference arising on translation of foreign operation	–	–	–	–	–	55,819	–	–	–	55,819	11,052	66,871
Exchange difference arising on translation to presentation currency	–	–	–	–	–	100,337	–	–	–	100,337	(19,132)	81,205
Total comprehensive income (expense) for the year	–	–	–	–	–	156,156	–	–	(1,386,813)	(1,230,657)	22,362	(1,208,295)
Issue of new shares	4,187	798,837	–	–	–	–	–	–	–	798,837	–	803,024
Dividends paid to non-controlling interest *(Note f)*	–	–	–	–	–	–	–	–	–	–	(15,000)	(15,000)
Appropriation	–	–	–	–	4,915	–	14,759	–	(11,548)	8,126	(8,126)	–
Capital injection from non-controlling shareholders of subsidiaries *(Note e)*	–	–	–	–	–	–	–	–	–	–	285,198	285,198
Addition arising from business combination *(Note 42c)*	–	–	–	–	–	–	–	–	–	–	798	798
Transfer special reserve to accumulated losses	–	–	–	–	–	–	–	(6,250)	6,250	–	–	–
At 31 December 2018	84,283	4,036,480	42,917	–	40,628	(21,486)	22,787	–	(1,442,560)	2,678,766	577,123	3,340,172

Notes:

a. The balance mainly arising from various reorganisation to streamline the Group's structure prior to the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

b. The balance comprises statutory surplus reserve and discretionary surplus reserve, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China ("**China**" or the "**PRC**", excluding the Hong Kong Special Administrative Region of the PRC ("**Hong Kong**"), the Macau Special Administrative Region of the PRC and Taiwan) and by the board of directors of the PRC subsidiaries in accordance with the article of associate of the subsidiaries. Statutory surplus reserve can be used to make up for previous years' losses or convert into additional capital of the PRC subsidiaries of the Company.

   Discretionary surplus reserve can be used to expand the existing operations of the Company's PRC subsidiaries.

c. According to the relevant PRC laws and regulations, for private school that require for reasonable return, it is required to appropriate to development fund of not less than 25% of the annual net income 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.

d. Discretionary special reserve represents the surplus in the school campus ancillary services specifically set aside by the Group for the improvement and enhancement of the services and conditions of the school campus services. This reserve is non-distributable to equity holders during the school operating period. Upon liquidation or wind-up of the schools, the underlying assets and liabilities of the special reserve would be treated similar to other assets and liabilities of the schools pursuant to《中華人民共和國民辦教育促進法》and《中華人民共和國企業破產法》. For the year ended 31 December 2018, the Group resolved to reverse the special reserve.

e. The amount comprising the capital injection to three non-wholly owned subsidiaries, i.e., (i) the non-controlling shareholder of Zhuhai First Capital Huijing Equity Investment Fund (Limited Partnership) ("**珠海首控匯錦股權投資基金合夥企業(有限合夥)**") injected cash of RMB82,500,000 during the year; (ii) Guang Da (China) Automotive Components Holdings Limited ("**Guang Da**") issued additional shares to the non-controlling shareholders for cash injection of RMB73,698,000 (the details had been set out in the Company's announcement dated 31 October 2017 and the Company's circular dated 30 November 2017); and (iii) the non-controlling shareholder of Yunnan First Capital Education Management Company Limited ("**雲南首控教育管理有限公司**") ("**FC Yunnan**") injected cash of RMB129,000,000 during the year.

f. On 22 August 2018, a non-wholly owned subsidiary of the Company declared RMB50,000,000 cash dividends to the shareholders of which RMB15,000,000 is paid to its non-controlling shareholder.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Loss before tax	**(1,349,481)**	(342,637)
Adjustments for:		
Amortisation of intangible assets	**37,811**	28,364
Depreciation of property, plant and equipment	**64,423**	58,492
Loss on disposal of property, plant and equipment	**81**	15,897
Fair value changes of financial assets measured at FVTPL	**906,072**	204,884
Fair value changes of contingent consideration payables	**251**	–
Fair value change of embedded derivative components of convertible bonds	**5,865**	–
Interest income	**(69,690)**	(7,261)
Interest expense	**245,815**	128,428
Impairment on AFS investments	**–**	51,661
Dividends received from financial assets measured at FVTPL	**(36,662)**	(19,559)
Share of results of joint ventures	**92,405**	37,801
Share of results of associates	**(222)**	(1,536)
(Reversal of provision) provision on inventories, net	**(1,118)**	6,160
Impairment loss recognised (reversal of) in respect of trade receivables	**4,083**	(4,819)
Impairment loss recognised in respect of loan receivables	**57,220**	–
Provision for property under development for sale	**23,629**	–
Release of asset-related government grants	**(2,541)**	(2,194)
Release of prepaid lease payments	**7,044**	6,933
Unrealised foreign exchange loss (gain)	**165,849**	(88,338)
Impairment on goodwill	**–**	42,100
Gain on disposal of subsidiaries	**–**	(23,560)
Operating cash flows before movements in working capital	**150,834**	90,816
Decrease (Increase) in inventories	**91,333**	(22,105)
Increase in trade and other receivables	**(210,455)**	(85,967)
Increase in loan and interest receivables	**(181,765)**	–
Increase (decrease) in trade and other payables	**54,896**	(407,041)
Decrease in advance from customers	**–**	(937)
Decrease in provisions	**(681)**	(16,700)
Increase in contract liabilities	**53,928**	–
Decrease in deferred income	**–**	(22,052)
Increase in financial assets measured at FVTPL	**(46,138)**	(428,926)
Interest received	**20,325**	–
Decrease in customer deposits for trading securities included in the restricted bank balances	**11,958**	322,462
Cash used in operations	**(55,765)**	(570,450)
Income tax paid	**(1,919)**	(5,571)
NET CASH USED IN OPERATING ACTIVITIES	**(57,684)**	(576,021)

	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES		
Additions of property, plant and equipment	**(115,535)**	(129,618)
Payment for acquisition of intangible assets	**(460)**	(943)
Investments in joint ventures	**(200)**	(261,401)
Advances of loan receivables	**(757,562)**	(487,982)
Receipt of repayments of loan receivables	**382,616**	70,222
Grants received in relation to acquisition of property, plant and equipment	**5,182**	16,900
Net cash inflows (outflows) for acquisition of subsidiaries *(Note 42)*	**8,605**	(23,088)
Interest received	**6,277**	7,261
Dividends received from financial assets measured at FVTPL	**36,662**	19,559
Capital contribution to associates	**–**	(2,000)
Settlement of other receivable from the Disposed Group *(Note 42f)*	**–**	29,756
Proceeds from disposal of intangible assets	**–**	406
Repayments from non-controlling shareholders of subsidiaries	**65,000**	–
Net cash outflows upon disposal of subsidiaries	**–**	(72)
Settlement of payables relating to business acquisition	**(930)**	(295,237)
Proceeds from disposal of property, plant and equipment	**186**	1,803
Acquisition of prepaid lease payments	**(362)**	(165)
Purchase of financial assets measured at FVTPL	**(44,538)**	(396,625)
Repayment of amount due from a third party	**–**	219,964
Advance to a non-controlling shareholder of Xishan Schools	**(3,353)**	(65,000)
Deposits placed for an investment	**–**	(380,000)
Acquisition of AFS investments	**–**	(596,152)
Placement of restricted bank deposits	**(143,286)**	(105,000)
Release of restricted bank deposits	**62,317**	222,180
NET CASH USED IN INVESTING ACTIVITIES	**(499,381)**	(2,155,232)

	2018 RMB'000	2017 RMB'000
FINANCING ACTIVITIES		
Advance from an associate	**74**	228
Capital injection from non-controlling shareholders of subsidiaries	**281,898**	5,750
Interest paid	**(204,824)**	(123,181)
Dividend paid to non-controlling shareholder of a subsidiary	**(15,000)**	–
Repayment of long-term payables	**(5,556)**	–
New borrowings raised	**968,263**	1,956,331
Repayment of borrowings	**(891,997)**	(440,471)
Issuance of convertible bonds, net of transaction costs	**–**	656,357
Repayment to a non-controlling shareholder of Xishan Schools	**–**	(10,000)
Repayment to a joint venture	**(103,270)**	–
Advanced from joint ventures	**77,049**	53,270
Advanced from ex-shareholders of subsidiaries	**16,754**	–
Advance receipt in respect of share subscription in a subsidiary	**–**	38,454
Advance receipt in respect of transfer of equity interest in a subsidiary	**25,200**	–
NET CASH FROM FINANCING ACTIVITIES	**148,591**	2,136,738
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(408,474)**	(594,515)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**694,446**	1,324,651
Effect of foreign exchange rate changes	**34,320**	(35,690)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**320,292**	694,446
Cash and cash equivalents represented by		
Bank balances and cash	**302,966**	686,477
Security account balances	**17,326**	7,969

1. GENERAL

China First Capital Group Limited (the "**Company**", together with its subsidiaries are collectively referred to as the "**Group**") was incorporated as an exempted company with limited liability in the Cayman Islands on 27 April 2011. The shares of the Company (the "**Share(s)**") has been listed on the Stock Exchange with effect from 23 November 2011. Up to the date of issuance of these consolidated financial statements, the Company does not have a controlling party. The registered office and principal place of the Company is set out in section under heading of "Corporate Information" of the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in Note 50.

The functional currency of the Company is Hong Kong dollar ("**HK$**"). The consolidated financial statements are presented in Renminbi ("**RMB**"), for a consistency presentation from prior years and therefore the directors of the Company (the "**Director(s)**") consider that RMB is a preferred currency to be used in presenting the operating results and financial position of the Group.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Due to regulatory restrictions on foreign ownership in the schools in the PRC, the Group conducts a material portion of the business through Fuzhou Xishan Education Management Company Limited* 福州市西山教育管理有限公司 ("**Xishan Education**"), Jinan Baofei Enterprise Management Company Limited* 濟南寶飛企業管理有限公司 ("**Jinan Baofei**") (collectively the "**School Sponsor**") and the schools# held by the School Sponsor ("**Consolidated Affiliate Entities**") in the PRC. The subsidiaries of the Company, Fuzhou Quanyue Education Consulting Company Limited* 福州全悦教育諮詢有限公司 ("**Fuzhou WOFE**") and Jinan First Capital Education Consulting Company Limited* 濟南首控教育諮詢有限公司 ("**Jinan WOFE**") (collectively the "**WOFEs**"), have entered into contractual arrangements (the "**Contractual Arrangements**") with the School Sponsor and their equity holders, respectively, which enable the Group to:

- exercise effective financial and operational control over the Consolidated Affiliated Entities;
- exercise equity holders' voting rights of the Consolidated Affiliated Entities;
- receive substantially all of the economic interest returns generated by the Consolidated Affiliated Entities in consideration for the business support, technical and consulting services provided by WOFEs;
- obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Consolidated Affiliated Entities from the respective equity holders at nil consideration or a minimum purchase price permitted under PRC laws and regulations. WOFEs may exercise such options at any time until it has acquired all equity interests and/or all assets of the Consolidated Affiliated Entities. In addition, the Consolidated Affiliated Entities are not allowed to sell, transfer, or dispose any assets, or make any distributions to their equity holders without prior consent of WOFEs; and

\# The schools includes: Fuqing Xishan School* (福清西山學校), Fuqing Xishan Vocational and Technical School* (福清西山職業技術學校), Jiangxi Xishan School* (江西省西山學校) and Xishan Education Group* (西山教育集團) collectively referred to as "**Xishan Schools**"), and Jinan Shijiyinghua Experiment School* (濟南世紀英華實驗學校).

* *For identification purpose only*

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- obtain pledge over the entire equity interest of the School Sponsor from their equity holders as collateral security for all of the School Sponsor payments due to WOFEs and to secure performance of the School Sponsor and their respective subsidiaries obligations under the Contractual Arrangements.

Pursuant to the Contractual Arrangement entered between the Group and the School Sponsor, the Contractual Arrangement effectively transfer the controls over economic benefits and pass the risks associated with the Consolidated Affiliated Entities to the Group. In substance, the Group has effectively acquired the equity interests in the Consolidated Affiliated Entities with the effective of the Contractual Arrangement. Consequently, the Company regards the School Sponsor and the Consolidated Affiliated Entities as indirect subsidiaries. The Group has consolidated the assets and liabilities, income and expenses of the School Sponsor and the Consolidated Affiliated Entities in the consolidated financial statements for the both years.

The financial information of the School Sponsor and the Consolidated Affiliated Entities shown in their financial statements before elimination of the inter-company balances are set out in Note 51.

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and amendments to HKFRSs and new interpretation issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs and new interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3.1 HKFRS 15 *Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, i.e. 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (accumulated losses) (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provision in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 HKFRS 15 *Revenue from Contracts with Customers (Continued)*

Accounting policies resulting from application of HKFRS 15 are disclosed in Note 4.

Upon initial application of HKFRS 15, except for certain reclassification of financial line items as set out in below table, there is no other impact on the presentation and measurement or classification on the Group's consolidated financial statements.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2017** RMB'000	**Reclassification** RMB'000	**Carrying amounts under HKFRS 15 at 1 January 2018#** RMB'000
CURRENT LIABILITIES				
Advances from customers	*a*	1,957	(1,957)	–
Deferred income	*b*	142,586	(140,392)	2,194
Contract liabilities	*b*	–	142,349	142,349
NON-CURRENT LIABILITIES				
Deferred income	*b*	215,454	(174,910)	40,544
Contract liabilities	*b*	–	174,910	174,910

The amounts in this column are before the adjustments from the application of HKFRS 9.

Notes:

a. At the date of initial application, RMB1,957,000 included in advances from customers is received in advance for automotive parts business. These balances were reclassified to "contract liabilities" upon application of HKFRS 15.

b. At the date of initial application, included in the total deferred income of RMB315,302,000 related to the consideration received from the students of Xishan Schools in advance for the provision of schooling services. These balances were reclassified to "contract liabilities" upon application of HKFRS 15.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows of the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 HKFRS 15 *Revenue from Contracts with Customers (Continued)*

Impact on the consolidated statement of financial position

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
CURRENT LIABILITIES			
Advances from customers	–	1,477	1,477
Deferred income	–	211,231	211,231
Contract liabilities	215,816	(215,816)	–
NON-CURRENT LIABILITIES			
Deferred income	–	170,749	170,749
Contract liabilities	177,866	(177,866)	–
OWNERS' EQUITY			
Reserves	2,678,766	10,225	2,688,991

Impact on the consolidated statement of profit or loss and other comprehensive income

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Finance costs	(245,815)	10,225	(235,590)
Loss before tax	(1,349,481)	10,225	(1,339,256)
Loss for the year	(1,356,371)	10,225	(1,346,146)
Exchange difference arising on translation of foreign operations	66,871	(250)	66,621
Exchange differences arising on translation to presentation currency	81,205	250	81,455
Total comprehensive expense for the year	(1,208,295)	10,225	(1,198,070)
Loss for the year attributable to:			
Owners of the Company	(1,386,813)	10,225	(1,376,588)
Total comprehensive expense attributable to:			
Owners of the Company	(1,230,657)	10,225	(1,220,432)

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.1 HKFRS 15 *Revenue from Contracts with Customers (Continued)*

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
OPERATING ACTIVITIES			
Loss before tax	(1,349,481)	10,225	(1,339,256)
Adjustments for:			
Interest expense	245,815	(10,225)	235,590
Decrease in advance from customers	–	(480)	(480)
Increase in contract liabilities	53,928	(53,928)	–
Increase in deferred income	–	54,408	54,408

The explanations of the above changes affected in the current year by the application of HKFRS 15 as compared to HKAS 18 are set out in notes a and b above for describing the reclassifications made to the consolidated statement of financial position at 1 January 2018 upon the adoption of HKFRS 15.

3.2 HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; (ii) expected credit losses ("**ECL**") for financial assets; and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provision set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings (accumulated losses), without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 4.

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.2 HKFRS 9 *Financial Instruments (Continued)*

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and other financial statements line items under HKFRS 9 at the date of initial application, i.e. 1 January 2018.

	Notes	AFS investments RMB'000	Financial assets designated at FVTPL RMB'000	Held for trading investments RMB'000	Financial assets measured at FVTPL required by HKFRS 9 RMB'000	Interests in joint ventures RMB'000	Deferred tax liabilities RMB'000	AFS reserves RMB'000	Retained earnings (accumulated losses) RMB'000
Closing balance at 31 December 2017 – HKAS 39		616,184	1,734,594	1,134,020	–	819,636	113,738	8,192	(71,302)
Effect arising from initial application of HKFRS 9:									
Reclassification									
From AFS investments to FVTPL	*a*	(616,184)	–	–	616,184	–	–	–	–
From designated at FVTPL to FVTPL	*b*	–	(1,734,594)	–	1,734,594	–	–	–	–
From AFS reserves to retained earnings (accumulated losses)	*c*	–	–	–	–	–	–	(8,192)	8,192
From held for trading investments to FVTPL	*d*	–	–	(1,134,020)	1,134,020	–	–	–	–
Remeasurement									
From measured at cost to FVTPL	*e*	–	–	–	8,548	–	–	–	8,548
From measured at cost to FVTPL	*e*	–	–	–	–	–	1,410	–	(1,410)
Change on share of results in joint ventures due to the HKFRS 9 adopted by joint ventures	*f*	–	–	–	–	5,523	–	–	5,523
Opening balance at 1 January 2018 – HKFRS 9		–	–	–	3,493,346	825,159	115,148	–	(50,449)

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.2 HKFRS 9 *Financial Instruments (Continued)*

Summary of effects arising from initial application of HKFRS 9 *(Continued)*

Notes:

a. AFS investments

At the date of initial application of HKFRS 9, the Group's equity investments of RMB616,184,000 were reclassified from AFS investments to financial assets measured at FVTPL. The fair value changes of RMB8,192,000 relating to those equity investments previously carried at fair value were transferred from AFS reserves to retained earnings (accumulated losses).

b. Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application of HKFRS 9, the Group no longer applied designation as measured at FVTPL for the portfolio of financial assets which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of these investments of RMB1,734,594,000 were reclassified from financial assets designated at FVTPL to financial assets measured at FVTPL.

Investments are equity securities held for trading which are required to be classified as FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

c. From AFS reserves to retained earnings (accumulated losses)

At the date of initial application of HKFRS 9, the Group transfers the reserves generated from fair value changes of AFS investments to retained earnings (accumulated losses).

d. From held for trading investments to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of RMB1,134,020,000 were reclassified from held for trading investments to financial assets measured at FVTPL.

e. From measured at cost to FVTPL

At the date of initial application of HKFRS 9, the effect of the change of the Group's equity investments previously measured at cost less impairment to measure the investments at FVTPL amounted to RMB8,548,000 and the related deferred tax liabilities of RMB1,410,000 were adjusted to retained earnings (accumulated losses) at 1 January 2018.

f. Changes on share of results in joint ventures due to the HKFRS 9 adopted by joint ventures

At the date of initial application of HKFRS 9, one of the Group's joint ventures reclassified its equity investment from AFS investments measured at cost less impairment to financial assets measured at FVTPL, which resulted in an increase in the carrying amount of interests in joint venture of RMB5,523,000 with corresponding adjustment to the retained earnings (accumulated losses).

g. Impairment under ECL model

As at 1 January 2018, the Directors reviewed and assessed the Group's existing financial instruments subject to for impairment assessment by using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional impairment allowance has been recognised at the initial application as the expected credit losses were not material.

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustment recognised for each of the line items affected. Line items that were not affected by the changes have not been presented.

	31 December 2017 (Audited) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	1 January 2018 (Restated) RMB'000
NON-CURRENT ASSETS				
AFS investments	616,184	–	(616,184)	–
Financial assets measured at FVTPL	–	–	624,732	624,732
Interests in joint ventures	819,636	–	5,523	825,159
CURRENT ASSETS				
Financial assets measured at FVTPL	2,868,614	–	–	2,868,614
CURRENT LIABILITIES				
Advances from customers	1,957	(1,957)	–	–
Deferred income	142,586	(140,392)	–	2,194
Contract liabilities	–	142,349	–	142,349
NON-CURRENT LIABILITIES				
Deferred income	215,454	(174,910)	–	40,544
Contract liabilities	–	174,910	–	174,910
Deferred tax liabilities	113,738	–	1,410	115,148
OWNERS' EQUITY				
Reserves	3,089,799	–	12,661	3,102,460

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new and amendments to HKFRSs and new interpretation that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts [3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments [1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

3. APPLICATION OF NEW AND REVISED HONG KONG ACCOUNTING STANDARDS ("HKASs") AND HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 16 *Leases (Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB60,910,000 as disclosed in Note 43. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of RMB6,889,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits would be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements would result in changes in measurement, presentation and disclosure as indicated above. The Group would elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not applying this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore the Group would not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group would elect the modified retrospective approach for the application of HKFRS 16 as lessee and would recognise the cumulative effect of initial application to opening retained earnings (accumulated losses) without restating comparative information.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") and by the Hong Kong Companies Ordinance ("**CO**").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based payment*, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicated that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributable to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interest.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets, and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is based on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stage, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtain control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amount arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 could be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate or a joint venture is described below.

Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates and joint ventures *(Continued)*

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Change in net assets of the associates/joint ventures other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or a joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3.1)

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3.1) *(Continued)*

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of automobile shock absorbers
- Provision of financial and advisory services
- Provision of schooling services and management and consultancy services to educational institutions

For the sales of automobile shock absorbers, revenue is recognised when a customer obtains control of the goods, i.e. upon fulfilment of performance obligation stipulated in the contracts and goods are delivered to the customers.

For the provision of financial and advisory services, specific price for individual performance obligation is indicated in the contract. For the provision of private equity fund management, franchise and overseas education/migration advisory services, the revenue is recognised proportionately over the relevant period of services contracts as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Other than the provision of the private equity fund management, franchise and overseas education/migration consultancy services, revenue for the provision of other financial and advisory services is recognised at a point in time when the customer obtains control of the distinct service, i.e. upon the fulfilment of performance obligation stipulated in the contract and service is delivered to the customer.

For the provision of schooling services, revenue is recognised proportionately over the relevant period of school semesters, i.e. over the period of time for the reason that the customer simultaneously receives and consumes the schooling benefits provided by the Group's performance as the Group performs.

For provision of management and consultancy services to educational institutions by seconding staff for running the schools or conducting tutorial/teaching, revenue is recognised proportionately over the relevant period of school semesters, i.e. over the period of time for the continuous benefits are provided to educational institutions during the relevant period.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation — output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 3.1) *(Continued)*

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

Warranties

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

The Group generally provides warranties for general repairs and does not provide extended warranties in its contracts with customers. As such, existing warranties are assurance-type warranties under HKFRS 15, which continue to be accounted for under HKAS 37 *Provisions Contingent Liabilities and Contingent Assets*.

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with HKAS 37 unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income from provision of finance operation services business is recognised when services are provided.

The service income from education operation business mainly includes tuition fees, boarding fees, and management and consultancy fees; tuition and boarding fees received are generally paid in advance at the beginning of each school year or semester, and are initially recorded as deferred income. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded as deferred income and is reflected as a current or non-current liability, based on the Group's expected amounts of revenue to be earned. Management and consultancy fees are recognised when services are provided.

School campus ancillary service income is mainly generated from the operation of school canteens. The relevant income is recognised when the goods or services are transferred or provided.

Dividend income from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is accrued on a time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flow receipts through the expected life of the financial asset's net carrying amount on initial recognition.

Storage service income is recognised when the Group provided the relevant services.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of "translation reserve".

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate or a joint venture that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange difference accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the state-managed retirement benefit scheme or the Mandatory Provident Fund Scheme are recognised as expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress), are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes are carried at cost, less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Prepaid lease payments

Prepaid lease payments representing land use rights in the PRC are stated at cost and amortised on a straight-line basis over the lease terms. Prepaid lease payments which are to be amortised in the next twelve months or less are classified as current assets.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (if any) on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss in the period when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Properties under development for sale

Properties under development for sale are stated at the lower of cost and net realisable value. Cost comprises the costs of land use rights and other directly attributable costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Under HKFRS 9 and HKAS 39

Financial assets and liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which is derived from the Group's ordinary course of business is presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3.2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3.2) ***(Continued)***

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("**FVTOCI**"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3.2) *(Continued)*

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" and "other income and expenses" line items.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3.2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 including trade and other receivables, loan and interest receivables, amounts due from joint ventures, security account balances, restricted bank balances and bank balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experiences, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade and other receivables, loan and interest receivables ("**Receivables**"). The ECL on these assets are assessed individually by considering the expected default rate. The ECL on these financial assets are estimated using the analysis of the expected default rate, i.e. analysis of Receivables individually, the credit level from the external information and so on.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3.2) *(Continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3.2) *(Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider or;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3.2) *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and loan and interest receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified AFS financial assets, loans and receivables and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan and interest receivables, security account balances, restricted bank balances and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivable where the recognition of interest would be immaterial.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) ***(Continued)***

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 48.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) *(Continued)*

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investment whose fair value cannot be reliably measured. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in the other comprehensive income and accumulated under the heading of AFS. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the AFS is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counter party; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial assets, such as trade and other receivables and loan and interest receivables, assets that are assessed on individual basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) *(Continued)*

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the financial assets' original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and loan and interest receivables, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivable or loan and interest receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of AFS reserves.

Financial liabilities and equity instruments

Classification of financial liabilities or equity instruments

Financial liabilities and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL, or (iii) contingent consideration that may be paid by the acquirer as part of a business combination to which HKFRS 3 applies.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible bonds, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings (accumulated losses) upon derecognition of the financial liability.

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss on the financial liabilities is included in separate line item in the consolidated statement of profit or loss and other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, borrowings, amount due to an associate, amounts due to joint ventures, convertible bonds and long-term payables are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises a financial liability when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Convertible bonds contains liability component, conversion option and conversion-veto option components

The component parts of the convertible bonds are classified separately as financial liability, conversion option and conversion-veto option in accordance with the substance of the contractual arrangement and the definitions of a financial liability and derivative. A conversion option and convertible-veto option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is derivative.

At the date of issue, the liability, conversion option and conversion-veto option are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option and conversion-veto option are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bonds using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Embedded derivatives (under HKFRS 9 since 1 January 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Embedded derivatives (before application of HKFRS 9 on 1 January 2018)

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical judgements in applying accounting policies *(Continued)*

Contractual arrangement

The Group conducts a substantial portion of the business through the Consolidated Affiliate Entities in the PRC due to regulatory restrictions on foreign ownership in the Group's schools in the PRC. The Group does not have any equity interest in the Consolidated Affiliate Entities. The Directors assessed whether or not the Group has control over the Consolidated Affiliated Entities based on whether the Group has the power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities. After assessment, the Directors concluded that the Group has control over the Consolidated Affiliated Entities as a result of the Contractual Arrangements and other measures and accordingly, the Group has consolidated the financial information of the Consolidated Affiliated Entities in the consolidated financial statements.

Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The Directors based on the advice of its legal counsel, consider that the Contractual Arrangements among the WOFE, the Consolidated Affiliated Entities and their equity holders are in compliance with the relevant PRC laws and regulations and are legally enforceable. Changes in market conditions or interpretation of the PRC laws and regulations in future may have a material impact on the assessment of control over the Consolidated Affiliated Entities.

Business combination

For the year ended 31 December 2018, the Group has completed the purchase price allocation for acquisition of Xinjiang Edukeys, Tiantai Culture and Jinlu Yuda (all defined in Note 50). The purchase price allocation exercises require judgment to be exercised by the Directors in identifying assets and liabilities of the acquirees that exist as at the date of acquisition and measured at fair value. In particularly, the judgments result in the recognition of intangible assets, contingent consideration payables and goodwill.

In accounting for the business combination, the amounts derived in arriving at the fair values of the identified assets and recognised liabilities are sensitive to the underlying assumptions around forecasted future cash flows, and the discount rates applied in respective valuations. The fair values of the identified assets (including intangible assets with indefinite useful lives) and liabilities along with goodwill are set out in the Note 42a,b and c.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment of goodwill and intangible assets with indefinite useful lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of the cash-generating unit (the "**CGU**") to which goodwill and intangible assets with indefinite useful lives has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, further impairment loss may arise. As at 31 December 2018, the carrying amount before impairment of goodwill and intangible assets with indefinite useful lives were RMB610,720,000 (31 December 2017: RMB407,480,000) and RMB159,319,000 (31 December 2017: RMB57,737,000), respectively. For the year ended 31 December 2018, no impairment loss has been recognised on goodwill nor on the intangible assets with indefinite useful lives. An impairment loss of RMB42,100,000 was recognised on goodwill in prior year. Details of the impairment testing on goodwill and intangible assets with indefinite useful lives are disclosed in Notes 23 and 21, respectively.

(b) Estimated impairment of loan and interest receivables

Prior to 1 January 2018, the management assesses at the end of reporting period whether there is any objective evidence that loan and interest receivables were impaired. If there is objective evidence that an impairment loss on loan and interest receivables has been incurred, the amount of loss is measured as the difference between the carrying amount of the loan and interest receivables and the present value of estimated future cash flows from these receivables.

Where the actual future cash flows are less than expected, an impairment loss may arise.

Starting from 1 January 2018, the Group recognises lifetime ECL for loan and interest receivables using individual assessment, based on the internal credit rating, the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, the carrying amounts of loan and interest receivables are RMB1,144,886,000 (31 December 2017: RMB511,963,000).

For the year ended 31 December 2018, impairment loss of RMB57,220,000 (2017: Nil) was recognised.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(c) Valuation of financial instruments

The fair values for certain financial instruments, including financial assets measured at FVTPL (Note 29), embedded derivatives in convertible bonds (Note 35) and contingent consideration payables (Note 40), are established by using valuation techniques. The Group has established a process to ensure that valuation techniques are developed by qualified personnel and are validated and reviewed by personnel independent of the personnel that developed the valuation techniques. Valuation techniques are assessed before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. However, it should be noted that some inputs, such as credit risk, volatility of share price and dividend yield of the investees, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of these financial instruments.

(d) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write-off or write-down obsolete or non-strategic assets that have been abandoned or sold. Change in these estimations may have a material impact on the results of the Group. Details of the movement of property, plant and equipment and the estimated useful lives are set out in Note 17.

(e) Provision for warranty claims

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts historically. In case where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. The carrying amount of provision for warranty is set out in Note 38.

(f) Estimated impairment of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling prices for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor this risk, including regular review by the management of the inventory ageing listing on a periodical basis for those aged inventories. This involves comparison of carrying values of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made for any obsolete and slow-moving items. If the selling price is lower than expected, additional allowance would be recognised.

The carrying amount of inventories is set out in Note 25. For the year ended 31 December 2018, a net reversal of RMB1,118,000 (2017: a net impairment loss of RMB6,160,000) for obsolete and slow-moving inventories was recognised.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(g) Estimated impairment of property, plant and equipment

The Group reviews the carrying values of its property, plant and equipment to determine whether there is any indication that those assets are impaired. If it is not possible to estimate the recoverable amount of the property, plant and equipment individually, the management determines the recoverable amount of the CGU to which the property, plant and equipment belongs. No impairment loss on property, plant and equipment has been recognised for the year ended 31 December 2018. As at 31 December 2018, the carrying amount of property, plant and equipment is set out in Note 17.

6. REVENUE

a. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018			
Segments*	Automotive parts business RMB'000	Education operation business RMB'000	Financial services business RMB'000	Total RMB'000
Types of goods or service:				
Sales of automotive absorbers to				
– the automobile market of original automobile manufacturers	1,259,685	–	–	1,259,685
– the secondary market of the automobile industry	39,460	–	–	39,460
– others	54,721	–	–	54,721
Sub-total	1,353,866	–	–	1,353,866
Provision of schooling services and management and consulting services to educational institutions				
– schooling services	–	277,549	–	277,549
– management and consultancy services	–	29,087	–	29,087
Sub-total	–	306,636	–	306,636

* Details of reportable segments are set out in Note 7.

6. REVENUE *(Continued)*

a. For the year ended 31 December 2018 *(Continued)*

(i) Disaggregation of revenue from contracts with customers *(Continued)*

	For the year ended 31 December 2018			
Segments*	**Automotive parts business RMB'000**	**Education operation business RMB'000**	**Financial services business RMB'000**	**Total RMB'000**
Provision of financial services and advisory services in respect of				
– private equity fund management	–	–	33,843	33,843
– underwriting, dealing and margin services	–	–	17,614	17,614
– advisory services	–	–	12,995	12,995
– others	–	–	4,759	4,759
Sub-total	–	–	69,211	69,211
Revenue from contracts with customers	1,353,866	306,636	69,211	1,729,713
Interest income	–	–	81,084	81,084
Revenue	1,353,866	306,636	150,295	1,810,797
Geographical markets:				
– the PRC	1,345,992	306,232	39,572	1,691,796
– Hong Kong	133	–	13,228	13,361
– Singapore	–	–	16,411	16,411
– Italy	7,741	–	–	7,741
– Others	–	404	–	404
Revenue from contracts with customers	1,353,866	306,636	69,211	1,729,713
Timing of revenue recognition:				
– A point in time	1,353,866	–	36,740	1,390,606
– Over time	–	306,636	32,471	339,107
Revenue from contracts with customers	1,353,866	306,636	69,211	1,729,713

* Details of reportable segments are set out in Note 7.

6. REVENUE *(Continued)*

a. For the year ended 31 December 2018 *(Continued)*

(ii) Performance obligations for contracts with customers

Automotive parts business

The Group sells automotive parts products directly to customers i.e. automobile market of original automobile manufactures and the secondary market of the automobile industry.

For sales of automotive parts products to the customers, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to and have accepted at their designate premises ("**Delivery**"). Following the Delivery, the customer has full discretion over the products. The normal credit term is 90 days upon the Delivery.

Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur. A contract liability, representing advance payment from a customer, is recognised for sales upon when control of the goods has yet transferred.

Sales-related warranties associated with automotive parts products cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for such warranties in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which is consistent with previous accounting treatment prior to application of HKFRS 15.

Financial and advisory service business

Revenues from provision of private equity fund management, franchise and overseas education/migration advisory services is recognised over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. The revenue is recognised proportionately over the relevant period of services contract. Revenue from the provision of other financial and advisory services within the segment is recognised at a point in time when the customer obtains control of the distinct service, i.e. upon fulfilment of performance obligation stipulated in the contract and service is delivered to the customer. The contracts with customers are all fixed priced.

Education operation business

The Group provides education services to students. Such services are recognised over the relevant period of school semesters, i.e. over the period of time.

6. REVENUE *(Continued)*

a. For the year ended 31 December 2018 *(Continued)*

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Automotive parts business RMB'000	**Education operation business** RMB'000	**Financial services business** RMB'000	**Total** RMB'000
Within one year	1,477	211,231	6,139	218,847
One to two years	–	35,440	13,071	48,511
Two to five years	–	103,770	–	103,770
Over five years	–	31,539	–	31,539
Total	1,477	381,980	19,210	402,667

b. For the year ended 31 December 2017

	2017 RMB'000
Automotive parts business	1,530,210
Education operation business	239,466
Financial services business	95,571
	1,865,247

7. SEGMENT INFORMATION

a. Products and services within each operating segment

The segment information reported was determined by the types of products and services and the types of customers to which products are sold and services are provided, which is consistent with the internal information that are regularly reviewed by the executive Directors, who are the chief operating decision makers (the "**CODM**") of the Group, for the purposes of resource allocation and assessment of performance.

No operating segment has been aggregated to form the following reportable segment:

During the current year, an additional segment, i.e., "properties development and sales business", was identified following the completion of acquisition of new business (Note 42b). The incurred costs/expenses are insignificant, accordingly no separate segment information on the new identified segment is presented.

- Automotive parts business – manufacturing and selling of automobile shock absorber and suspension system products to the automobile market of original automobile manufacturers and the secondary market of the automobile industry.

- Financial services business – engage in the business of dealing in securities, underwriting and placing securities, financing consultancy, merger and acquisition agency, financial advisory, asset management, private equity fund management, credit financing, franchising and overseas education/migration financial services.

- Education operation business – engage in the business of provision of schooling services, including kindergarten education, academic education and vocational education and business of provision of management and consultancy services to educational institutions.

7. SEGMENT INFORMATION *(Continued)*

b. Segment revenue and segments results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

	Segment revenue		Segment results	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Automotive parts business	**1,353,866**	1,530,210	**254,553**	271,503
Education operation business	**306,636**	239,466	**153,060**	112,317
Financial services business	**150,295**	95,571	**97,833**	92,232
Total segment	**1,810,797**	1,865,247	**505,446**	476,052
Other income and expenses			**93,718**	21,143
Other gains and losses			**(92,983)**	8,223
Impairment losses, net of reversal			**(61,303)**	4,819
Fair value changes of financial assets measured at FVTPL			**(906,072)**	(70,835)
Fair value changes of contingent consideration payables			**(251)**	–
Fair value changes of embedded derivative components of convertible bonds			**(5,865)**	–
Selling and distribution expenses			**(108,862)**	(128,600)
Research and development expenditure			**(48,935)**	(46,180)
Administrative expenses			**(386,376)**	(442,566)
Finance costs			**(245,815)**	(128,428)
Share of results of associates			**222**	1,536
Share of results of joint ventures			**(92,405)**	(37,801)
Loss before tax			**(1,349,481)**	(342,637)

Revenue reported above represents revenue generated from sales of goods and provision of services to external customers. There was no inter-segment sales for the years ended 31 December 2018 and 2017.

The accounting policies of the operating segments are the same as the Group's accounting policies disclosed in Note 4. Segment results represent the gross profit of each operating segment, conforming to the same measurement reported to the CODM for the purposes of resources allocation and performance assessment.

Other than the segment revenue and segment results analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

7. SEGMENT INFORMATION *(Continued)*

c. Geographical information

The Group principally operates in the PRC.

For the year ended 31 December 2018, 93% (2017: 94%) of the Group's revenue from external customers is derived from the PRC.

d. Information about major customers

Revenue from major customers which accounts for 10% or more of the Group's revenue for the years ended 31 December 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Automotive parts business		
– Customer A	**279,304**	447,901
– Customer B	**204,300**	165,216

8. OTHER INCOME AND EXPENSES

	2018 RMB'000	2017 RMB'000
Interest income from financial institutions	**2,690**	3,745
Interest income from non-financial institutions	**67,000**	3,516
Government grants *(Note)*	**14,083**	7,643
Release of asset-related government grants *(Note 36)*	**2,541**	2,194
Storage services income	**4,298**	4,045
School campus ancillary services income	**67,622**	72,209
Less: associated expenses relating school campus ancillary services	**(64,516)**	(72,209)
	93,718	21,143

Note: The grants represent incentives received by a PRC subsidiary for the eminent contribution in technology development and encouragement of business development, etc. These grants are accounted for as unconditional and immediate financial support with no future related costs nor related to any assets.

9. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Donation	**(330)**	(2,239)
Exchange (loss) gain, net	**(110,221)**	82,652
Reversal of provision (provision) on inventories, net *(Note a)*	**1,118**	(6,160)
Gain on disposal of scrap	**7,492**	3,971
Investment gains *(Note b)*	**36,662**	19,559
Gain on disposal of subsidiaries *(Note 42f)*	**–**	23,560
Impairment loss on goodwill *(Note 23)*	**–**	(42,100)
Provision for property under development for sale *(Note c)*	**(23,629)**	–
Loss on disposal of property, plant and equipment	**(81)**	(15,897)
Impairment loss on AFS investments	**–**	(51,661)
Others	**(3,994)**	(3,462)
	(92,983)	8,223

Notes:

a. For the year ended 31 December 2018, an amount of provision on obsolete inventories amounting to RMB31,073,000 (2017: RMB14,923,000) and a reversal of RMB32,191,000 (2017: RMB8,763,000) upon realisation of sales was made.

b. Amounts represent dividend received from financial assets measured at FVTPL.

c. Provision represents the impairment recognised on property under development for sale based on the recoverable amounts.

10. FAIR VALUE CHANGES OF FINANCIAL ASSETS MEASURED AT FVTPL

	2018 RMB'000	2017 RMB'000
Equity securities:		
– Listed in Hong Kong	**(407,396)**	(12,074)
– Listed in the PRC	**(367,578)**	(55,924)
– Listed in overseas	**(76,547)**	(2,837)
Unlisted investments:		
– Hong Kong	**(46,401)**	–
– the PRC	**35**	–
– Overseas	**(8,185)**	–
	(906,072)	(70,835)

11. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on:		
– Bank borrowings	**23,663**	23,206
– Other borrowings	**141,566**	99,177
– Convertible bonds *(Note 35)*	**69,211**	3,358
– Contract liabilities, at imputed interest rate	**10,225**	–
– Long-term payables, at imputed interest rate *(Note 39)*	**1,146**	2,636
	245,811	128,377
Accretion on other payables *(Note 32)*	**4**	51
	245,815	128,428

12. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2018 RMB'000	2017 RMB'000
Employee benefits expenses (including Directors):		
– salaries and other benefits	**357,929**	323,213
– retirement benefit scheme contributions	**38,894**	34,092
Total staff costs	**396,823**	357,305
Auditor's remuneration	**5,798**	4,321
Amortisation of intangible assets (included in "cost of services")	**37,811**	28,364
Cost of inventories recognised as expenses (included in "cost of sales" and "research and development expenditure")	**1,043,264**	1,276,547
Depreciation of property, plant and equipment	**64,423**	58,492
Release of prepaid lease payments	**7,044**	6,933

13. TAXATION

	2018 RMB'000	2017 RMB'000
Current tax:		
– Hong Kong	**340**	3,439
– the PRC	**34,758**	16,380
– Overseas	**867**	37
	35,965	19,856
Deferred tax credit *(Note 24)*	**(29,075)**	(62,622)
	6,890	(42,766)

The current income tax expense for the years ended 31 December 2018 and 2017 mainly represents the PRC enterprise income tax ("**EIT**") and Hong Kong Profits Tax.

PRC EIT is calculated at the prevailing tax rate on the taxable income of the group entities operating in the PRC. Under the Law of the PRC on EIT (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is at 25% from 1 January 2008 onwards.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 15 December 2009, a subsidiary of the Company, Nanyang Cijan Automobile Absorber Company Limited ("**Nanyang Cijan**") obtained "High and New Technology Enterprise" status for 3 years that entitles Nanyang Cijan a preferential tax rate of 15% for the period from 2015 to 2018 according to the PRC tax law. The "High and New Technology Enterprise" status has been renewed in 2018 for another 3 years.

Pursuant to the relevant tax ordinance of Hong Kong, Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2018 and 2017.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entities will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

13. TAXATION *(Continued)*

Group companies incorporated in Singapore is subject to corporate income tax ("**CIT**") calculated at 17% of the estimated assessable profit. Singapore incorporated companies can also enjoy 75% tax exemption on the first S$10,000 of normal chargeable income and a further 50% tax exemption on the next S$290,000 of normal chargeable income.

Companies within the Group that are incorporated in Cayman Islands and the British Virgin Island ("**BVI**") are not subject to any income tax.

The tax charge for the years ended 31 December 2018 and 2017 can be reconciled to the loss before tax per consolidated statement of profit or loss and other comprehensive income as follows:

	2018 **RMB'000**	2017 RMB'000
Loss before tax	**(1,349,481)**	(342,637)
Tax at 25% (2017: 25%)	**(337,370)**	(85,660)
Tax effect of tax losses not recognised	**124,827**	70,127
Tax effect of expenses not deductible for tax purpose	**19,946**	13,035
Tax effect of income not taxable for tax purpose	**(26,116)**	(10,162)
Tax effect of additional qualified expenses deductible for tax purpose *(Note)*	**(12,955)**	(5,772)
Effect of tax concessions granted to a PRC subsidiary	**48**	280
Tax effect of deductible temporary differences not recognised	**254,757**	–
Utilisation of tax losses previously not recognised	**(653)**	(14,855)
Reversal of deferred tax assets and liabilities recognised in before year	**(15,317)**	–
Tax effect of different tax rate in other jurisdiction	**126**	(8,386)
Tax effect of withholding tax provision on undistributed profits of a PRC subsidiary	**(403)**	(1,373)
	6,890	(42,766)

Note: The amount represents additional 75% (2017: 50%) income tax deduction in respect of qualifying research and development expenditures and the one-off deductible equipment priced less than RMB5,000,000 incurred for the year.

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION

a. Directors' and chief executive's emoluments

Details of the emoluments paid to the Directors and chief executive of the Company during the year, disclosed pursuant to the applicable Listing Rules and CO, on a named basis are as follows:

Year ended 31 December 2018

	Fees RMB'000	Discretionary bonus* RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Executive directors					
Dr. Wilson Sea	256	855	2,564	–	3,675
Mr. Tang Mingyang	256	855	2,564	–	3,675
Mr. Zhao Zhijun	256	–	539	13	808
Ms. Li Dan	256	820	1,231	–	2,307
Dr. Zhu Huanqiang (appointed on 1 February 2018)	235	2,717	1,561	29	4,542
Mr. Yan Haiting (resigned on 1 February 2018)	21	–	103	–	124
Non-executive director					
Mr. Li Hua	205	–	–	–	205
Independent non-executive directors					
Mr. Chu Kin Wang, Peleus	231	–	–	–	231
Dr. Li Zhiqiang	231	–	–	–	231
Mr. Wang Song (appointed on 15 June 2018)	125	–	–	–	125
Mr. Chen Gang (resigned on 15 June 2018)	106	–	–	–	106
	2,178	5,247	8,562	42	16,029

* The discretionary bonus is determined having regard to the performance and market trend by the remuneration committee of the Company.

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION *(Continued)*

a. Directors' and chief executive's emoluments *(Continued)*

Year ended 31 December 2017

	Fees RMB'000	Discretionary bonus* RMB'000	Salaries and allowances RMB'000	Contributions to retirement benefit scheme RMB'000	Total RMB'000
Executive directors					
Dr. Wilson Sea	174	2,601	2,601	–	5,376
Mr. Tang Mingyang	174	2,601	2,601	–	5,376
Mr. Zhao Zhijun	–	–	527	15	542
Ms. Li Dan	174	2,566	1,249	–	3,989
Mr. Yan Haiting	174	902	1,249	173	2,498
Non-executive director					
Mr. Li Hua	130	–	–	–	130
Independent non-executive directors					
Mr. Chu Kin Wang, Peleus	156	–	–	–	156
Dr. Li Zhiqiang	156	–	–	–	156
Mr. Chen Gang	156	–	–	–	156
	1,294	8,670	8,227	188	18,379

Mr. Zhao Zhijun and Dr. Zhu Huanqiang are also the chief executive of the Company, and their emoluments disclosed above include those for services rendered by him as the chief executive.

The emoluments of executive Directors shown above were mainly for their services in connection with the management of the affairs of the Group whereas those paid to non-executive Director and independent non-executive Directors were for their services as directors of the Company.

None of the Directors waived or agreed to waive any remuneration for the years ended 31 December 2018 and 2017.

14. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' REMUNERATION *(Continued)*

b. Employees' emoluments

The five highest paid individuals of the Group for the year ended 31 December 2018 included 4 (2017: 3) directors. The remunerations of the remaining highest paid individuals other than the directors are as follows:

	2018	2017
	RMB'000	RMB'000
Employees		
– salaries and other benefits	**1,333**	4,546
– discretionary bonus*	**718**	5,168
– retirement benefits scheme contributions	**15**	41
	2,066	9,755

* The discretionary bonus is determined having regard to the performance and market trend by the remuneration committee of the Company.

The emoluments of the five highest paid individuals were within the following bands:

	Number of individuals	
	2018	2017
HK$2,000,000 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**2**	–
HK$4,500,001 to HK$5,000,000	**–**	2
HK$5,000,001 to HK$5,500,000	**1**	–
HK$6,000,001 to HK$6,500,000	**–**	2
HK$6,500,001 to HK$7,000,000	**–**	1
	5	5

For the year ended 31 December 2018 and 2017, no emoluments were paid by the Group to any of the directors of the Group as join or upon joining the Group or as compensation for loss of office.

15. DIVIDENDS

No dividend was paid or proposed by the Company for the years ended 31 December 2018 and 2017. The board of Directors does not recommend the payment of dividend for the year ended 31 December 2018 (2017: Nil).

16. LOSS PER SHARE

The calculation of basic loss per Share is based on the following data:

	2018	2017
Loss		
Loss for the year attributable to owners of the Company for the purpose of basic loss per Share (RMB'000)	**(1,386,813)**	(302,169)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per Share *(Note)*	**4,919,774,915**	4,646,013,699

Note:

For the year ended 31 December 2018 and 2017, the calculation of diluted loss per Share did not assume the conversion of the Company's outstanding convertible bonds as it would result in a decrease in loss per Share.

On 28 February 2017, each of the issued and unissued shares of HK$0.10 each in the share capital of the Company has been subdivided into 5 shares of HK$0.02 each, details of which were set out in the Company's announcements dated 27 January 2017, 27 February 2017 and 28 February 2017 and the Company's circular dated 10 February 2017.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Furniture fixture and equipment	Machinery	Leasehold Improvement	Others*	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2017	556,309	18,606	58,803	193,122	2,981	59,403	16,960	906,184
Additions	30,445	1,502	12,029	48,543	1,344	10,375	25,380	129,618
Addition through acquisition of subsidiaries *(Note 42)*	–	–	264	–	–	–	–	264
Transfer from construction in progress	1,998	–	3,865	8,786	–	7,368	(22,017)	–
Disposal	(3,068)	(765)	(4,054)	(33,868)	(299)	–	–	(42,054)
Disposal of a subsidiary	–	–	(1,050)	–	–	–	–	(1,050)
Exchange realignment	1,298	(147)	(194)	96	(172)	–	–	881
At 31 December 2017	586,982	19,196	69,663	216,679	3,854	77,146	20,323	993,843
Additions	8,883	3,527	11,330	14,573	–	13,694	76,466	128,473
Addition through acquisition of subsidiaries *(Note 42)*	–	–	28	–	–	2,331	–	2,359
Transfer from construction in progress	14,926	–	2,606	686	–	–	(18,218)	–
Disposal	–	(463)	(801)	(239)	–	–	–	(1,503)
Exchange realignment	118	102	155	68	180	–	–	623
At 31 December 2018	610,909	22,362	82,981	231,767	4,034	93,171	78,571	1,123,795
ACCUMULATED DEPRECIATION								
At 1 January 2017	(22,938)	(5,165)	(3,328)	(58,004)	(1,407)	(9,597)	–	(100,439)
Provided for the year	(25,882)	(3,388)	(6,147)	(16,276)	(1,212)	(5,587)	–	(58,492)
Eliminated on disposal	33	341	13	23,899	68	–	–	24,354
Exchange realignment	(19)	21	73	(39)	83	–	–	119
At 31 December 2017	(48,806)	(8,191)	(9,389)	(50,420)	(2,468)	(15,184)	–	(134,458)
Provided for the year	(24,512)	(3,940)	(8,449)	(18,691)	(853)	(7,978)	–	(64,423)
Eliminated on disposal	–	305	707	224	–	–	–	1,236
Exchange realignment	(4)	(50)	(95)	(7)	(114)	–	–	(270)
At 31 December 2018	(73,322)	(11,876)	(17,226)	(68,894)	(3,435)	(23,162)	–	(197,915)
CARRYING VALUES								
At 31 December 2018	537,587	10,486	65,755	162,873	599	70,009	78,571	925,880
At 31 December 2017	538,176	11,005	60,274	166,259	1,386	61,962	20,323	859,385

* Others mainly comprise various ancillary structures including wires, circuits and drainages etc.

As at 31 December 2018, property ownership certificate was not obtained in respect of the buildings at carrying amount of RMB385,331,000 (31 December 2017: RMB376,878,000).

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis over the following estimated useful lives taking into account of their estimated residual values:

Buildings	Over the shorter of the term of lease or 30 years
Motor vehicles	5–10 years
Furniture, fixture and equipment	5–7 years
Machinery	1–15 years
Leasehold improvement	Over the shorter of the term of lease or 5–7 years
Others	3–20 years

18. PREPAID LEASE PAYMENTS

	RMB'000
At 1 January 2017	285,730
Addition	165
Charged for the year	(6,933)
At 31 December 2017	278,962
Addition	362
Charged for the year	(7,044)
At 31 December 2018	272,280

	31.12.2018 RMB'000	31.12.2017 RMB'000
Analysed for reporting purposes:		
Current assets	**7,092**	6,803
Non-current assets	**265,188**	272,159
	272,280	278,962

Prepaid lease payments are released to profit or loss over the lease terms ranging between 48 to 50 years.

As at 31 December 2018, land certificate was not obtained in respect of RMB112,386,000 (31 December 2017: RMB115,721,000) of leasehold land.

19. INTERESTS IN ASSOCIATES

	31.12.2018 RMB'000	31.12.2017 RMB'000
Cost of unlisted investments in associates	**2,500**	4,500
Share of results and other comprehensive income	**2,158**	1,536
	4,658	6,036

a. Zhejiang Xichuan Shock Absorber Company Limited*

Zhejiang Xichuan Shock Absorber Company Limited* 浙江浙川減振器有限公司 ("**Zhejiang Cijan**") was established in the PRC with a registered capital of RMB10,000,000 in 2013 and is engaged in the manufacturing and sales of shock absorber component products. Zhejiang Cijan is owned as to 25% by the Group and 75% by another investor. The Group is able to exercise significant influence over Zhejiang Cijan because it has the power to appoint one out of the three directors of Zhejiang Cijan under the provisions stated in the articles of association of Zhejiang Cijan.

Summarised financial information in respect of Zhejiang Cijan, representing amounts shown in its financial statements prepared in conformity with HKFRSs is as below:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Current assets	**27,746**	21,891
Non-current assets	**5,501**	5,792
Current liabilities	**(14,614)**	(11,540)
	18,633	16,143

	2018 RMB'000	2017 RMB'000
Revenue	**45,255**	37,761
Total comprehensive income for the year	**2,489**	5,702

Reconciliation of the above summarised financial information to the carrying amount of the interest in Zhejiang Cijan recognised in the consolidated financial statements is as below:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Net assets of Zhejiang Cijan	**18,633**	16,143
Proportion of the Group's ownership interest in Zhejiang Cijan	**25%**	25%
Carrying amount of the Group's interest in Zhejiang Cijan, adjusted by unrealised profit (if any)	**4,658**	4,036

19. INTERESTS IN ASSOCIATES *(Continued)*

b. Jinlu Yuda (as defined in Note 50)

Jinlu Yuda was established in the PRC with a registered capital of RMB50,000,000 and is engaged in the education investment and consulting service. Jinlu Yuda was owned as to 20% by the Group and 80% by other investors. As at 31 December 2017, RMB10,000,000 was paid up by respective investors in proportion to their shares and the Group was able to exercise significant influence over Jinlu Yuda because it had the power to appoint one executive director of Jinlu Yuda pursuant to the articles of association of Jinlu Yuda.

On 14 December 2018, the Group has acquired additional 70% equity interests in Jinlu Yuda at a consideration of RMB8,200,000. Upon completion, Jinlu Yuda became a subsidiary of the Group. Details of the acquisition was set out in Note 42c.

	14.12.2018 (on disposal date) RMB'000	31.12.2017 RMB'000
Current assets	**8,099**	10,000
Non-current assets	**30**	–
Current liabilities	**(131)**	–
	7,998	10,000

	2018 RMB'000	2017 RMB'000
Revenue	**–**	–
Total comprehensive expense for the year	**(2,002)**	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in Jinlu Yuda recognised in the consolidated financial statements is as below:

	14.12.2018 RMB'000	31.12.2017 RMB'000
Net assets of Jinlu Yuda	**7,998**	10,000
Proportion of the Group's ownership interest in Jinlu Yuda	**20%**	20%
Carrying amount of the Group's interest in Jinlu Yuda, adjusted by unrealised profit (if any)	**1,600**	2,000

* The English name is for indentification purpose only.

20. INTERESTS IN JOINT VENTURES

	31.12.2018 RMB'000	31.12.2017 RMB'000
Cost of interests in joint ventures	**1,157,143**	861,430
Share of results and other comprehensive expenses	**(139,722)**	(41,794)
	1,017,421	819,636

Details of each of the Group's joint ventures at the end of the reporting period are as follows:

Name of entity	Place of Incorporation/ establishment	Proportion of ownership interest held by the Group 31.12.2018	Proportion of ownership interest held by the Group 31.12.2017	Principal activities
Wuxi Guolian First Capital Equity Investment Fund Centers (Limited Partnership)* ("**FC Guolian**") 無錫國聯首控股權投資基金中心(有限合夥)	PRC	**92.38%** ***(Note a)***	30%	Equity investment
Wuxi First Capital Lianxin Investment Center (Limited Partnership)* ("**FC Lianxin**") 無錫首控聯信投資中心(有限合夥)	PRC	**60%**	60%	Investment management
KSI Education Ltd. ("**KSI Education**")	the Unite Kingdom	**49%** ***(Note b)***	N/A	Education services
Zhuhai First Capital Education Investment Fund (Limited Partnership)* ("**Zhuhai Education**") 珠海首控教育產業投資基金(有限合夥)	PRC	**20%**	20%	Equity investment
Shenzhen Shouzhong Education Development Equity Investment Enterprise (Limited Partnership)* ("**Shouzhong Education**") 深圳首中教育產業發展股權投資企業(有限合夥)	PRC	**60%**	60%	Equity investment
First Capital Fund Management Wuxi Limited* ("**FC Wuxi**") 首控基金管理無錫有限公司	PRC	**N/A** ***(Note c)***	60%	Investment management
Singapore Raffles Music College Pte. Ltd. ("**SRMC**") 新加坡萊佛士音樂學院有限公司	Singapore	**40%**	40%	Education services
Chongqing First Capital Cultural Investment Equity Investment Fund (Limited Partnership)* ("**FC Wentou**") 重慶首控文投股權投資基金合夥企業(有限合夥)	PRC	**50.08%**	50.08%	Equity investment
First Capital (Shenzhen) Educational Industry Equity Investment Enterprise (Limited Partnership)* ("**Shenzhen Education**") 首控(深圳)教育產業股權投資合夥企業(有限合夥)	PRC	**0.80%** ***(Note d)***	N/A	Equity investment

* The English name is for identification purpose only.

20. INTERESTS IN JOINT VENTURES *(Continued)*

Notes:

a. FC Guolian proceeded two capital withdrawals by other investors on 20 January 2018 and 25 September 2018, respectively. Accordingly, the shares of FC Guolian held by the Group increased from 30% to 92.38% passively.

b. On 6 July 2018, the Company subscribed for 29,400,000 new shares of KSI Education, representing approximately 49% of its enlarged total issued shares, for a consideration of allotment of 74,500,000 new Shares. The 74,500,000 new Shares were issued at HK$4.15 per Share (equivalent to RMB3.51 per Share).

c. On 30 March 2018, the Group has disposed 60% shares of FC Wuxi with nil carrying amount at consideration of RMB1, from which the Group has recorded RMB1 disposal gain included in other gains and losses.

d. On 21 June 2018, the Group has subscribed 5% capital contribution of Shenzhen Education for RMB5,000,000. At 31 December 2018, the Group has paid RMB200,000 which entitling 0.80% equity interest in Shenzhen Education.

The activities which will significantly affect the variable returns of the above entities shall be decided unanimously by all the investors or by their representatives. The Directors consider that the Group does not have control over the entities and have rights to the net assets of the entities, these entities are therefore classified as the joint ventures of the Group.

20. INTERESTS IN JOINT VENTURES *(Continued)*

Summarised financial information in respect of the joint ventures, representing amounts shown in the joint ventures' financial statements for the years ended 31 December 2018 and 2017 prepared in conformity with HKFRSs are as below:

	FC Guolian RMB'000	FC Lianxin RMB'000	Zhuhai Education RMB'000	KSI Education RMB'000	Shouzhong Education RMB'000	SRMC RMB'000	FC Wentou RMB'000	Shenzhen Education RMB'000
At 31 December 2018								
Current assets	264,095	836	773,184	410,817	127,377	19,235	367,503	25,003
– cash and cash equivalent	1,235	836	253	2,800	2,033	13	121,995	3
Non-current assets	–	9,000	211,500	1,284	223,960	7,442	190,000	–
Current liabilities	(577)	–	(148,000)	(6,320)	–	(9,060)	(54,517)	(2)
Non-current liabilities	–	–	–	–	–	(245)	–	–
Revenue	–	–	–	–	–	9,696	–	–
Profit (loss) and other comprehensive income (expense) for the year	44,626	1,482	(11,005)	(116,674)	(159,679)	(8,041)	35,278	1

	FC Guolian RMB'000	FC Lianxin RMB'000	Zhuhai Education RMB'000	Shouzhong Education RMB'000	FC Wuxi RMB'000	SRMC RMB'000	FC Wentou RMB'000
At 31 December 2017							
Current assets	305,851	9,847	1,012,055	534,667	231	24,694	214,884
– cash and cash equivalent	164	847	12	89	17	12,730	212,451
Non-current assets	650,000	–	3,300	69	52	9,234	280,669
Current liabilities	–	–	(167,666)	(18,270)	(33)	(8,565)	(1,806)
Non-current liabilities	–	–	–	(6,910)	–	(332)	–
Revenue	–	–	–	–	–	7,817	–
Loss and other comprehensive expenses for the year	(11,680)	(105)	(152,428)	(329)	(2,879)	(2,197)	(1,943)

20. INTERESTS IN JOINT VENTURES *(Continued)*

Reconciliation of the above summarised financial information to the carrying amounts of the interests in the joint ventures recognised in the consolidated financial statements is as below:

	FC Guolian RMB'000	FC Lianxin RMB'000	Zhuhai Education RMB'000	KSI Education RMB'000	Shouzhong Education RMB'000 *(Note a)*	SRMC RMB'000	FC Wentou RMB'000 *(Note a)*	Shenzhen Education RMB'000	Total RMB'000
At 31 December 2018									
Net assets of each joint venture	263,518	9,836	836,684	405,781	351,337	17,372	502,986	25,001	N/A
Proportion of the Group's ownership interest in each joint venture	92.38%	60%	20%	49%	60%	40%	50.08%	0.80%*	N/A
The Group's share of net assets of each joint ventures	243,438	5,901	167,337	198,833	210,802	6,949	251,895	200	N/A
Consideration premium	–	–	–	7,097	–	24,050	–	–	N/A
Exchange realignment	–	–	–	20,603	–	(804)	–	–	N/A
Adjustments	–	–	–	–	34,851	–	(153,731)	–	N/A
Carrying amount of the Group's interest in each joint venture	243,438	5,901	167,337	226,533	245,653	30,195	98,164	200	1,017,421
The Group's share of (losses) profit in each joint venture	(47,519)	889	(4,516)	(57,170)	1,460	(3,216)	17,667	–	(92,405)

* Pursuant to the article of association, investor partners are entitling to profit or loss of the company in proportion to their respective paid up capital contributions.

	FC Guolian RMB'000 *(Note a)*	FC Lianxin RMB'000	Zhuhai Education RMB'000	Shouzhong Education RMB'000 *(Note a)*	FC Wuxi RMB'000	SRMC RMB'000	FC Wentou RMB'000 *(Note b)*	Total RMB'000
At 31 December 2017								
Net assets of each joint venture	955,851	9,847	847,689	509,556	250	25,031	493,747	N/A
Proportion of the Group's ownership interest in each joint venture	30%	60%	20%	60%	60%	40%	50.08%	N/A
The Group's share of net assets of each joint venture	286,755	5,908	169,538	305,733	150	10,012	247,268	N/A
Consideration premium	–	–	–	–	–	24,050	–	N/A
Adjustments	(1,529)	–	–	(61,478)	–	–	(166,771)	N/A
Carrying amount of the Group's interest in each joint venture	285,226	5,908	169,538	244,255	150	34,062	80,497	819,636
The Group's share of losses in each joint venture	(3,485)	(63)	(30,486)	(198)	(1,727)	(879)	(963)	(37,801)

20. INTERESTS IN JOINT VENTURES *(Continued)*

Notes:

a. At 31 December 2018 and 2017, the adjustment represents certain investment gains/losses arising from designated projects which are undertaken by other investment partners pursuant to partnership agreement and the Group agreed not to share the results in proportionate to its equity interest in the joint venture.

b. At 31 December 2017, the adjustment represented the capital contribution which committed by the Group to the joint venture but yet paid.

21. INTANGIBLE ASSETS

	Customer relationship RMB'000	Patents RMB'000	Security trading licence RMB'000	Software RMB'000	Student roster RMB'000	Brand RMB'000	Capital market service licence RMB'000	Financial business brand RMB'000	Total RMB'000
COST									
At 1 January 2017	10,466	555	419	4,265	75,994	152,829	–	–	244,528
Additions									
– through purchase	–	–	–	943	–	–	–	–	943
– through acquisition of businesses *(Note 42)*	–	–	–	–	–	–	1,455	56,651	58,106
Disposal	–	–	(419)	–	–	–	–	–	(419)
Exchange realignment	–	–	–	–	–	–	(9)	(360)	(369)
At 31 December 2017	10,466	555	–	5,208	75,994	152,829	1,446	56,291	302,789
Additions									
– through purchase	–	–	–	460	–	–	–	–	460
– through acquisition of businesses *(Note 42)*	70,090	–	–	–	–	100,126	–	–	170,216
Exchange realignment	–	–	–	–	–	–	37	1,419	1,456
At 31 December 2018	80,556	555	–	5,668	75,994	252,955	1,483	57,710	474,921
AMORTISATION									
At 1 January 2017	(10,466)	(555)	(13)	(20)	(5,093)	(3,608)	–	–	(19,755)
Charge for the year	–	–	–	(261)	(7,733)	(20,370)	–	–	(28,364)
Disposal	–	–	13	–	–	–	–	–	13
At 31 December 2017	(10,466)	(555)	–	(281)	(12,826)	(23,978)	–	–	(48,106)
Charge for the year	(2,336)	–	–	(777)	(11,237)	(23,461)	–	–	(37,811)
At 31 December 2018	(12,802)	(555)	–	(1,058)	(24,063)	(47,439)	–	–	(85,917)
CARRYING VALUES									
At 31 December 2018	67,754	–	–	4,610	51,931	205,516	1,483	57,710	389,004
At 31 December 2017	–	–	–	4,927	63,168	128,851	1,446	56,291	254,683

21. INTANGIBLE ASSETS *(Continued)*

For intangible assets having finite useful lives:

Except that the student roster is amortized based on the estimated student turnover rate with reference to the except number of registered students that the Group would provide the tuition services after taking into effect of the prior years' student turnover rate, the following items are amortised on a straight-line basis over the useful life from the acquisition date:

Customer relationship	8-10 years
Patents	4 years
Security trading licence	10 years
Software	7-10 years
Brand	12-14 years

For intangible assets having indefinite useful lives:

Capital market service licence and financial business brand each has a legal life of 10 years and can be renewable.

The management regards brand of RMB100,126,000 generated from the acquisition of Xinjiang Edukeys ("**brand from Xinjiang Edukeys**") has an indefinite useful life as the brand from Xinjiang Edukeys can be widely used without a defined period.

As a result, the "capital market service licence", "financial business brand" and "brand from Xinjiang Edukeys" are considered by Directors as having an indefinite useful life because all are expected to contribute to net cash inflows indefinitely. At 31 December 2018, the Group has conducted impairment assessment of "capital market service licence" and "financial business brand" as a result from acquisition of Stirling Coleman (as defined in Note 50). The methodology and assumptions used for impairment assessment were the same as those for impairment assessment of goodwill relevant to CGU Stirling Coleman as disclosed in Note 23. The Group also has conducted impairment assessment of "brand from Xinjiang Edukeys" as a result from acquisition of Xinjiang Edukeys and the methodology and assumptions used for impairment assessment were the same as those for impairment assessment of goodwill relevant to CGU Xinjiang Edukeys as disclosed in Note 23. No impairment on these intangible assets was recognised for the year ended 31 December 2018 (2017: Nil).

22. DEPOSITS FOR INVESTMENTS

Deposits for investments represent the deposits made for below investment targets:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Wenhua College of Yunnan Art University* (雲南藝術學院文華學院)	**380,000**	380,000
	380,000	380,000

* The English name is for identification purpose only.

At 31 December 2018 and 2017, the deposit was paid to Intermediate People's Court of Kunming City, Yunnan Province雲南省昆明市中級人民法院 for acquiring controlling interests in 雲南藝術學院文華學院("**Wenhua**") through an open auction. Up to the date of issuance of these financial statements, the Group has registered as the sole school sponsor of Wenhua and is in the process in completion of certain pre-requisite conditions stated in the cooperation agreement before obtaining control over Wenhua.

23. GOODWILL

	2018 RMB'000	2017 RMB'000
COST		
At 1 January	**407,480**	395,802
Arising on acquisition of businesses *(Note 42)*	**202,945**	11,753
Exchange realignment	**295**	(75)
At 31 December	**610,720**	407,480
IMPAIRMENT		
At 1 January	**(42,100)**	–
Impairment loss recognised in the year	**–**	(42,100)
At 31 December	**(42,100)**	(42,100)
CARRYING VALUES		
At 31 December	**568,620**	365,380

For the purposes of impairment testing, goodwill has been allocated to six CGUs and details are set out as below:

CGU Nanyang Cijan*:	engages in manufacturing of automobile shock absorber
CGU Brilliant Rich*:	engages in private equity fund management and provision of financial and advisory services
CGU Jinan Baofei*:	engages in providing K-12 education services in the PRC
CGU Xishan Schools:	engages in providing K-12 education and vocational education services in the PRC
CGU Stirling Coleman*:	engages in offering corporate finance services to small and medium-sized enterprises including initial public offerings and follow-on offerings on Singapore Stock Exchange, independent financial advisory for Singapore listed companies, advice on mergers and acquisitions of both listed and privately owned companies in and outside Singapore
CGU Xinjiang Edukeys*:	engages in development, operation and management of international education service

* As defined in Note 50.

23. GOODWILL *(Continued)*

The carrying amounts of goodwill as at 31 December 2018 and 2017 allocated to these CGUs are as follows:

	Goodwill	
	31.12.2018	31.12.2017
	RMB'000	RMB'000
CGU Nanyang Cijan	**29,655**	29,655
CGU Brilliant Rich	**59,663**	59,663
CGU Jinan Baofei	**61,638**	61,638
CGU Xishan Schools	**202,746**	202,746
CGU Stirling Coleman	**11,973**	11,678
CGU Xinjiang Edukeys	**202,945**	N/A
Total	**568,620**	365,380

The basis of the recoverable amounts of these CGUs and their major underlying assumption are summarised below:

Nanyang Cijan

The recoverable amount of this CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 11.86% (2017: 15.41%). Nanyang Cijan's cash flows beyond the 5-year period are extrapolated using a growth rate of 2.22% (2017: 1.94%). This growth rate is based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Nanyang Cijan to exceed the aggregate recoverable amount of the CGU.

Brilliant Rich

The recoverable amount of this CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 24% (2017: 30%). Brilliant Rich's cash flows beyond the 5-year period are extrapolated using a steady 3% (2017: 3%) growth rate. This growth rate is based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Based on the sensitivity analysis conducted by the management, an impairment of RMB7,056,000 would be resulted should a 10% decrease in projected net income.

For the year ended 31 December 2017, the Group recognised an impairment loss of RMB42,100,000 in relation to goodwill arising on acquisition of Brilliant Rich by comparing the recoverable amount with the carrying value.

23. GOODWILL *(Continued)*

Jinan Baofei

The recoverable amount of this CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 16.20% (2017: 16.58%). Jinan Baofei's cash flows beyond the 5-year period are extrapolated using a steady 3% (2017: 3%) growth rate. This growth rate is based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include expected tuition fee and number of student intake, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Jinan Baofei to exceed the aggregate recoverable amount of the CGU.

Xishan Schools

The recoverable amount of this CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15.74% (2017: 14.12%). Xishan School's cash flows beyond the 5-year period are extrapolated using a steady 3% (2017: 3%) growth rate. This growth rate is based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Xishan Schools to exceed the aggregate recoverable amount of the CGU.

Stirling Coleman

The recoverable amount of this CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 14.37% (2017: 18.10%). Stirling Coleman's cash flows beyond the 5-year period are extrapolated using a steady 3% (2017: 3%) growth rate. This growth rate is based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Based on the sensitivity analysis conducted by the management, an impairment of RMB4,146,000 and RMB5,280,000 would be resulted should a 10% decrease in projected net income and a 10% increase in discount rate, respectively.

23. GOODWILL *(Continued)*

Xinjiang Edukeys

The recoverable amount of this CGU has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 15.97% (2017: N/A). Xinjiang Edukeys' cash flows beyond the 5-year period are extrapolated using a steady 3% (2017: N/A) growth rate. This growth rate is based on the relevant industry growth rate forecast and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Based on the sensitivity analysis conducted by the management, an impairment of RMB11,987,000 and RMB14,809,000 would be resulted should a 10% decrease in projected net income and a 10% increase in discount rate, respectively.

For the year ended 31 December 2018, the management determines that there is no impairment of the CGUs containing goodwill. The Directors believes that any reasonably possible changes in any of these assumptions would not cause the aggregate carrying mount of all the units to exceed the aggregate recoverable amount of the units.

24. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been presented on a net basis. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31.12.2018 **RMB'000**	31.12.2017 RMB'000
Deferred tax assets	**11,924**	15,464
Deferred tax liabilities	**(140,475)**	(113,738)
Total	**(128,551)**	(98,274)

24. DEFERRED TAXATION *(Continued)*

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following are the deferred tax assets (liabilities) recognised and movements thereon during the current and prior year:

	Allowance for debts RMB'000	Provision for obsolete or slow-moving inventories RMB'000	Warranty RMB'000	Accelerated tax depreciation RMB'000	Tax losses RMB'000	Withholding tax on undistributed profits RMB'000	Changes in fair value of financial instruments RMB'000	Fair value changes of assets acquired through business combination RMB'000	Total RMB'000
At 1 January 2017	2,740	4,786	–	–	5,510	(7,706)	(66,084)	(88,956)	(149,710)
Addition through acquisition of subsidiaries *(Note 42)*	–	–	–	–	–	–	–	(9,878)	(9,878)
(Charge) credit to profit or loss	(723)	924	704	–	1,579	1,373	58,765	–	62,622
Charge to other comprehensive income	–	–	–	–	–	–	(1,619)	–	(1,619)
Exchange realignment	–	–	–	–	(56)	–	304	63	311
At 31 December 2017	2,017	5,710	704	–	7,033	(6,333)	(8,634)	(98,771)	(98,274)
Addition through acquisition of subsidiaries *(Note 42)*	–	–	–	–	–	–	–	(58,963)	(58,963)
Credit (charge) to profit or loss	428	(235)	(102)	(2,108)	(1,522)	403	16,700	15,511	29,075
Exchange realignment	–	–	–	–	56	–	(304)	(141)	(389)
At 31 December 2018	2,445	5,475	602	(2,108)	5,567	(5,930)	7,762	(142,364)	(128,551)

24. DEFERRED TAXATION *(Continued)*

The Group had unrecognised tax losses as follows:

	RMB'000
At 1 January 2017	168,909
Reversal of deferred tax assets arising from tax losses	(34,597)
Utilisation	(59,420)
Addition	280,508
At 31 December 2017	355,400
Reversal of deferred tax assets arising from tax losses	(15,317)
Utilisation	(2,612)
Addition	499,307
At 31 December 2018	836,778

No deferred tax asset has been recognised in respect of unrecognised tax losses due to the unpredictability of future profits streams from respective entities within the Group. As at 31 December 2018, the unrecognised tax losses of RMB762,349,000 (31 December 2017: RMB297,599,000) will expire throughout to 2023 (2017: 2022), where the remaining unrecognised tax losses can be carried forward permanently. The tax losses amounting to RMB22,268,000 (31 December 2017: RMB31,268,000) recognised as deferred tax assets will expire throughout to 2023 (2017: 2022). The Group has RMB1,019,026,000 unrecognised deductible temporary differences as at 31 December 2018 (31 December 2017: Nil) in respect of fair value changes of financial assets measured at FVTPL, unrealised exchange differences and impairment loss.

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC established subsidiaries that are received by non-PRC resident entities from 1 January 2008 onwards. Other than Nanyang Cijan, other group companies established in the PRC has no distributable profits as at 31 December 2018 or 2017. At 31 December 2018 and 2017, deferred taxation had been provided in the consolidated financial statements in respect of temporary differences attributable to distributed profits of Nanyang Cijan at a tax rate of 10%.

25. INVENTORIES

	31.12.2018 RMB'000	31.12.2017 RMB'000
Raw materials	**23,615**	35,594
Work-in-progress	**6,486**	5,312
Finished goods	**106,523**	182,736
Consumables	**1,014**	4,211
	137,638	227,853

At 31 December 2018, included in the carrying amount are provision of RMB36,950,000 (31 December 2017: RMB38,068,000), which is determined with reference to the net realisable values of the inventory items. Additional provision of RMB31,073,000 (2017: RMB14,923,000), a reversal of RMB32,191,000 (2017: RMB8,763,000) and a write-off of RMB448,000 (2017: Nil) upon realisation of sales was made for the year ended 31 December 2018.

26. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Trade receivables *(Note a)*		
– goods and services	**545,458**	532,723
Less: allowance for trade debts	**(17,534)**	(13,451)
	527,924	519,272
Bills receivables *(Note b)*	**254,753**	58,010
Other receivables *(Note c)*	**210,012**	269,747
Less: allowance for other debts	**–**	–
	210,012	269,747
Value-added tax recoverable	**8,947**	9,945
Advances to suppliers	**51,818**	44,787
	1,053,454	901,761
Less: amounts shown under non-current assets	**(76,032)**	(163,739)
Total trade and other receivables shown under current assets	**977,422**	738,022

26. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group does not hold any collateral over these balances.

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit limit to each customer on individual basis. Limits attributed to customers are reviewed once a year. The credit terms for sales of goods is 3 months and no credit term for the provision of services.

Starting from 1 January 2018, the Group applied simplified approach to provide the ECL prescribed by HKFRS 9. Details of information about the exposure to credit risk and ECL for trade and other receivables are set out in Note 48.

At 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB30,924,000, which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on repayment history of respective customer.

Note a

The aging of trade receivables presented based on invoice date (also approximate to the date of revenue recognition), net of allowance for trade debts, is as follows:

	31.12.2018 RMB'000	31.12.2017 RMB'000
0 to 90 days	**448,934**	488,348
91 to 180 days	**58,259**	26,161
181 to 365 days	**19,570**	4,763
Over 365 days	**1,161**	–
	527,924	519,272

Aging of trade receivables which are past due but not impaired:

	31.12.2017 RMB'000
Past due by:	
1 to 90 days	26,161
91 to 275 days	4,763
	30,924

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the impairment loss (2017: allowance) for trade debts:

	Lifetime ECL (not–credit impaired) RMB'000	**Lifetime ECL (credit-impaired)** RMB'000	**Total** RMB'000
As at 31 December 2017 under HKAS 39 and as at 1 January 2018 under HKFRS 9	13,451	–	13,451
(Reversed) impairment losses recognised	(571)	4,654	4,083
As at 31 December 2018	12,880	4,654	17,534

	2017 RMB'000
At beginning of the year	18,270
Impairment losses recognised	4,685
Reversal	(9,504)
At end of the year	13,451

* The Group has initial applied HKFRS 9 at 1 January 2018 and no additional expected losses were considered to be required. Under the transition method chosen, comparative information is not restated.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Note b

As at 31 December 2018, the bills receivables were held by the Group for future settlement of trade receivables, of which certain bills were further discounted/endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

Bills receivables represent 銀行承兑匯票 ("**banker's acceptances**"), i.e. time drafts accepted and guaranteed for payment by banks in the PRC. Those banks accepting the banker's acceptances, which are state-owned banks or commercial banks in the PRC, are the primary obligors for payment on the due date of such banker's acceptances.

The aging of bills receivables, presented based on receipt date, is as follows:

	31.12.2018 RMB'000	31.12.2017 RMB'000
0 to 30 days	39,837	58,010
31 to 60 days	214,916	–
	254,753	58,010

Note c

The balance of other receivables, is as follows:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Amount due from a company resulting from acquisition of Xishan Schools *(i)*	76,033	160,905
Receivable from non-controlling shareholders of Xishan Schools *(ii)*	3,353	65,000
Receivable from the ex-shareholders of Tiantai Culture *(ii)*	10,612	–
Receivable from Wenhua *(iii)*	20,000	–
Deposits receivable from other third parties *(iii)*	39,374	–
Staff loan	10,817	7,715
Rental deposits	6,889	7,086
Deposits paid to local tax authorities	8,947	4,238
Others *(iv)*	33,987	24,803
	210,012	269,747
Less: amounts shown under non-current assets	(76,032)	(163,739)
Total other receivables shown under current assets	133,980	106,008

(i) The balance represents receivable from a company ("**Party A**") established in the PRC. The balance was guaranteed by the non-controlling shareholders of Xishan Schools. The balance is non-trade related, non-interest bearing, and repayable on demand of which RMB76,032,000 (31 December 2017: RMB160,239,000) is expected to be settled beyond one year from the end of the reporting period and is classified as non-current asset.

(ii) The balance is non-trade related, non-interest bearing, and repayment on demand. The Directors expect that the amount will be fully recovered within 12 months from the end of reporting period.

(iii) The amounts are non-trade related, unsecured, non-interest bearing, and without a fixed repayment term.

(iv) The balance is mainly comprising the pre-paid expenses i.e. advertising and other deposits amounting to RMB12,859,000 (31 December 2017: RMB7,891,000) and RMB8,726,000 (31 December 2017: RMB5,086,000).

27. LOAN AND INTEREST RECEIVABLES

	31.12.2018 RMB'000	31.12.2017 RMB'000
Loan receivables	**1,080,728**	503,894
Interest receivables	**64,158**	8,069
	1,144,886	511,963

The balances outstanding as at 31 December 2018 are of original maturity terms ranging from 20 days to 12 months (31 December 2017: from 1 month to 12 months). All loan receivables carry interest of 5% – 17% (2017: 5% – 17%) per annum. As at 31 December 2018, all the balances are aged within one year (31 December 2017: within one year).

At 31 December 2018, the balances comprising:

(i) Loan and interest receivables with carrying amount of RMB466,436,000 (31 December 2017: RMB125,575,000), the borrowers and their related party signed account control agreements with the Group as collateral. Pursuant to the agreements, the related party of the borrowers has pledged bank deposits of RMB544,130,000 which is controlled by the Group (31 December 2017: the borrower pledged security investments in security account controlled by the Group).

(ii) Loan and interest receivables with carrying amount of RMB121,334,000 (31 December 2017: RMB84,949,000), from individuals were guaranteed by the securities accounts held by each borrower.

(iii) A loan and interest receivable with carrying amount of RMB24,157,000 (31 December 2017: RMB23,511,000), was guaranteed by bank deposit of corresponding amount which deposited to the Group by the borrower.

(iv) A loan and interest receivable with carrying amount of RMB172,149,000 (31 December 2017: RMB197,795,000), advanced to another joint venturer of a joint venture of the Group, carries the interest rate ranging from 11% to 12% per annual with a fixed term of one year.

(v) The remaining balances with carrying amount of RMB360,810,000 (31 December 2017: RMB80,133,000) represent loans advanced to companies established in the PRC and BVI.

27. LOAN AND INTEREST RECEIVABLES *(Continued)*

The management of the Group reviewed the financial performance of the borrowers on regular basis and assessed credit risk individually. Starting from 1 January 2018, the Group applied simplified approach to provide the expected credit losses prescribed by HKFRS 9. The impairment assessment on credit risk is set out in Note 48.

Movement in the impairment loss for loan and interest receivables:

	RMB'000
At 1 January 2018	–*
Impairment loss recognised (not-credit impaired)	33,374
Impairment loss recognised (credit impaired)	23,846
At 31 December 2018	57,220

* The Group has initial applied HKFRS 9 at 1 January 2018 and no additional expected losses were considered required. Under the transition method chosen, comparative information is not restated.

28. AMOUNTS DUE FROM (TO) JOINT VENTURES

a. Amounts due from joint ventures

	31.12.2018 RMB'000	31.12.2017 RMB'000
FC Wentou	**40,257**	–
Shenzhen Education	**2**	–
	40,259	–

The amounts are non-trade related, unsecured, non-interest bearing, and without a fixed repayment term.

b. Amounts due to joint ventures

	31.12.2018 RMB'000	31.12.2017 RMB'000
Shouzhong Education	**–**	103,270
Zhuhai Education	**65,850**	–
KSI Education	**11,199**	–
	77,049	103,270

The amounts are non-trade related, unsecured, non-interest bearing, and without a fixed repayment term.

29. FINANCIAL ASSETS MEASURED AT FVTPL/AFS INVESTMENTS

	31.12.2018 **RMB'000**	31.12.2017 RMB'000
Financial assets:		
– AFS investments	**–**	616,184
– Measured at FVTPL	**2,631,330**	2,868,614
	2,631,330	3,484,798
Analysed for reporting purposes as:		
– Current assets *(Note a)*	**2,244,917**	2,868,614
– Non-current assets *(Note b)*	**386,413**	616,184
	2,631,330	3,484,798

Notes:

a. Details of the financial assets measured at FVTPL classified under current assets at the end of each reporting period are as follows:

Equity securities:		
– Listed in Hong Kong	1,481,918	1,920,176
– Listed in the PRC	504,160	869,900
– Listed in overseas	177,810	78,538
Unlisted investments:		
– Overseas	74,494	–
Financial product – the PRC	6,535	–
	2,244,917	2,868,614

29. FINANCIAL ASSETS MEASURED AT FVTPL/AFS INVESTMENTS *(Continued)*

Notes: (Continued)

a. *(Continued)*

							For the year ended 31 December 2018		As at 31 December 2017
	As at 31 December 2018								
Financial assets measured at FVTPL – current assets	**Main business**	**Numbers of shares held**	**% to shareholdings in the security**	**Fair value**	**% to the Group's total assets**	**Investment cost**	**Fair value changes**	**Investment gain**	**Fair value/ carrying amount**
				RMB'000		RMB'000	RMB'000	RMB'000	RMB'000
VIRSCEND EDU(HK.1565)	Education	382,917	12.60%	1,321,917	13.49%	1,517,086	(324,411)	25,842	1,600,421
BOCOM INTERNATIONAL PROSPERITY INVESTMENT LIMITED	N/A	–	–	–	–	–	22,157	–	134,173
GUANGAN AAA (SHA.600979)	Utility	70,000	7.38%	259,328	2.65%	357,460	(67,474)	3,500	326,802
JINLU GROUP (SZA.000510)	Manufacturing	61,258	10.06%	240,745	2.46%	543,235	(299,919)	2,450	538,517
G8 Education Limited (GEM)	Education	8,955	1.97%	118,815	1.21%	133,940	(54,773)	1,331	–
Others*	N/A	N/A	N/A	304,112	3.10%	423,298	(143,806)	2,583	268,701
Total	N/A	N/A	N/A	2,244,917	22.91%	2,975,019	(868,226)	35,706	2,868,614

* Other than the above mentioned investments, the Group also invested in one unlisted company incorporated overseas with carrying amount of RMB74,494,000 and more than 20 securities of companies at 31 December 2018. The principal activities of these companies included in "others" are mainly engaged in education, financial services and manufacturing. The fair value of each of these investments represented less than 1.00% of the total assets of the Group as at 31 December 2018.

b. Details of the investments classified as AFS investments under HKAS 39 which were classified as financial assets measured at FVTPL upon the adoption of HKFRS 9 on 1 January 2018 were as follows:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Equity securities:		
– Listed in overseas	**–**	274,310
Unlisted investments:		
– Hong Kong	**136,960**	176,640
– Overseas	**249,453**	165,234
	386,413	616,184

29. FINANCIAL ASSETS MEASURED AT FVTPL/AFS INVESTMENTS *(Continued)*

Notes: (Continued)

b. *(Continued)*

The investment information of financial assets measured at FVTPL classified under non-current assets are as following:

Financial assets measured at FVTPL – non-current assets	Notes	As at 31 December 2018 Fair value/ carrying amount RMB'000	As at 31 December 2018 % to the Group's total assets	As at 31 December 2018 Investment cost RMB'000	For the twelve months ended 31 December 2018 Fair value changes RMB'000	For the twelve months ended 31 December 2018 Investment gain RMB'000	As at 1 January 2018 Fair value RMB'000	As at 31 December 2017 Carrying amount RMB'000
GSV Acceleration Fund I, L.P.	*(i)*	137,405	1.40%	134,229	13,322	956	108,866	100,318
Alt School, PBC	*(ii)*	55,876	0.57%	54,585	(11,716)	–	64,916	64,916
G8 Education Limited (GEM)	*(iii)*	–	–	–	–	–	274,310	274,310
First Capital Education Selected Fund	*(iv)*	136,960	1.40%	171,190	(46,401)	–	176,640	176,640
SJW International Co., Ltd.	*(v)*	56,172	0.57%	47,823	6,949	–	N/A	N/A
Total		386,413	3.94%	407,827	(37,846)	956	624,732	616,184

(i) As at 31 December 2018, the carrying amount of RMB137,405,000 (31 December 2017: RMB100,318,000 which was measured at cost), represents the investment in a limited partnership incorporated in the United States, GSV Acceleration Fund I, L.P. ("**GSV Fund**"). The primary purpose of the GSV Fund is to make venture capital investment, by investing in and holding equity and equity-oriented securities of privately held companies focused on technologies that have the potential to transform education and accelerate the realisation of human capital potential.

(ii) As at 31 December 2018, included in the investments are RMB55,876,000 (31 December 2017: RMB64,916,000 which was measured at cost), representing the investment in an entity incorporated in the United State, Altschool, PBC ("**Altschool**"). The primary purpose of the Altschool is to build a technology-enabled network to empower and connect families, students, and teachers and run a network of tuition-funded pre-kindergarten through 8th-grade lab schools throughout the San Francisco Bay Area and New York City.

(iii) As at 31 December 2018, the Group held 8,955,000 (31 December 2017: 16,003,633) shares of G8 Education Limited ("**G8 Education**"), a company listed in Australian Securities Exchange and providing quality care and educational facilities across Australia and Singapore. Such investments were measured at fair value by reference to the quoted price of G8 Education at Australian dollar ("**AUD**") 24,625,000 (31 December 2017: AUD53,862,407), equivalent to RMB118,815,000 (31 December 2017: RMB274,310,000), of which the Group held part of equivalent to RMB21,404,000 (31 December 2017: Nil) through listed securities and other part of equivalent to RMB97,411,000 (31 December 2017: RMB274,310,000) through equity investments, which is planned to be disposed within one year and classified as current assets.

(iv) As at 31 December 2018, the carrying amount of RMB136,960,000 (2017: RMB176,640,000) represents the investments in First Capital Education Selected Fund for securities of listed companies and certain debts.

(v) As at 31 December 2018, the carrying amount represents investment in SJW International Co., Ltd. ("**SJW International**"), a Korean incorporated unlisted entity. Its main business includes providing basic adult English courses, online children English courses, as well as Chinese, Japanese and Spanish video language courses.

30. SECURITY ACCOUNT BALANCES

As at 31 December 2018, the security account balances represent deposits placed by the Group in security trading companies. The balances are unsecured, non-interest bearing and can be withdrawn at any time without penalty.

31. RESTRICTED BANK BALANCES/BANK BALANCES AND CASH

As at 31 December 2018, bank balances carry interest at market rates ranging from 0.001% to 0.35% (31 December 2017: 0.001% to 0.35%) per annum.

As at 31 December 2018, included in the balances of restricted bank balances are (i) an aggregate amount of RMB110,294,000 (31 December 2017: RMB122,252,000) representing the customer deposits for trading securities, (ii) RMB337,225,000 (31 December 2017: RMB329,000,000) representing the trust bank deposit held by the Group in a bank with the corresponding amount recognised by the Group as payable to the ex-shareholder of Brilliant Rich (Note 32c), (iii) RMB17,320,000 representing the escrow account managed by four parties in a bank account, (iv) RMB160,000,000 (31 December 2017: RMB105,000,000) representing cash deposited with banks as pledge for the bills payable with an original maturity of three to six months issued to suppliers for the purchase of raw materials, (v) RMB52,000 representing the fund held in a trust account for Stirling Coleman (31 December 2017: Nil), and (vi) RMB372,000 (31 December 2017: Nil) representing other restricted funds.

As at 31 December 2018, restricted bank balances, carrying interest at market rates ranging from 1.30% to 1.69% (31 December 2017: 1.30% to 1.69%) per annum.

The remittance of funds out of the PRC is subject to foreign exchange restrictions imposed by the PRC government.

32. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Trade payables *(Note a)*	**668,715**	552,778
Bills payables *(Note b)*	**180,000**	111,670
	848,715	664,448
Other payables *(Note c)*	**595,017**	511,362
Customer deposits for securities trading	**101,390**	122,252
Consideration payables for acquisition of businesses	**–**	58,301
Other payables to employees *(Note d)*	**316**	453
Other tax payables	**62,153**	49,559
Other accruals	**99,597**	91,177*
Payroll and welfare payables	**99,334**	90,676
	1,806,522	1,588,228
Less: Amount shown under non-current liabilities	**(213)**	(324)
Total trade and other payables shown under current liabilities	**1,806,309**	1,587,904

* At 31 December 2017, included in the balance was RMB10,031,000, representing transaction cost payable resulting from the issue of Convertible Bonds as set out in Note 35.

32. TRADE AND OTHER PAYABLES *(Continued)*

Note a

The following is an ageing analysis of trade payables presented based on invoice date at the end of the reporting periods:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Within 90 days	**543,378**	463,176
91 to 180 days	**92,270**	65,942
181 to 365 days	**23,758**	15,202
1 to 2 years	**9,309**	8,458
	668,715	552,778

Note b

The following is an ageing analysis of bills payables, presented based on issuance date at the end of each reporting period:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Within 30 days	**15,000**	11,170
31 to 60 days	**40,000**	46,500
61 to 90 days	**40,540**	–
91 to 180 days	**84,460**	54,000
	180,000	111,670

Trade payables and bills payables principally comprise amounts outstanding for purchase of materials. The average credit period for purchase of goods is 90 days. The Group has financial risk management policies in place to ensure that sufficient financial resources are maintained to meet its financial obligation.

Note c

The following is the balance of other payables:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Payable to the ex-shareholder of Brilliant Rich#	**337,225**	329,000
Payable to the ex-shareholder of Tiantai Culture#	**8,529**	–
Social insurance payable	**36,117**	55,757
Payables to non-controlling shareholders of Xishan Schools#	**–**	40,000
Deposit from third party##	**135,720**	–
Advance received in respect of transfer of equity interest in FC Yunnan	**25,200**	–
Advance received in respect of share subscription for Guang Da	**–**	38,454
Others	**52,226**	48,151
	595,017	511,362

\# The balances are non-trade related, non-secured, non-interest bearing and repayable on demand.

\## The balance is the pledged deposit received for loan receivables to an independent third party and expected to be repaid within one year.

32. TRADE AND OTHER PAYABLES *(Continued)*

Note d

Other payables to employees are interest-free and the settlement of the obligations is estimated to occur through to 2026. The payables to employees are calculated at the net present value of estimated future net cash flows of the payment obligation, discounted at 3.6% per annum at 31 December 2018 and 2017. Management has allocated the payables that are required to be settled within twelve months after the end of reporting period as current liabilities. No assets was legally restricted for the purposes of settling the payables.

	2018 RMB'000	2017 RMB'000
At beginning of the year	**453**	570
Settlements	**(141)**	(168)
Accretion during the year *(Note 11)*	**4**	51
At end of the year	**316**	453
Analysed for reporting purposes:		
Current liabilities	**103**	129
Non-current liabilities	**213**	324
	316	453

33. AMOUNT DUE TO AN ASSOCIATE

	31.12.2018 RMB'000	31.12.2017 RMB'000
Zhejiang Cijan	**2,499**	2,425

The amount is non-trade related, unsecured, non-interest bearing, and without a fixed repayment term.

34. BORROWINGS

	31.12.2018	31.12.2017
	RMB'000	RMB'000
Bank borrowings	**685,938**	479,875
Debentures	**389,484**	281,911
Other borrowings *(Note)*	**1,975,966**	2,199,682
	3,051,388	2,961,468
Unsecured	**1,260,040**	924,803
Secured	**1,791,348**	2,036,665
	3,051,388	2,961,468

Note: As at 31 December 2018, among other borrowings, RMB832,374,000 (31 December 2017: RMB832,374,000) was advanced from a joint venture, Zhuhai Education carrying fixed interest rate of 2% per annum, with maturity due within three years. For the year ended 31 December 2018, an amount of RMB39,666,000 due from the joint venture was set off with a corresponding amount of payable to the same party upon entering into an agreement. As at 31 December 2018, an amount of RMB9,020,000 was advanced under discounted bills (31 December 2017: Nil) of advances under discounted bills was included in bank borrowing.

The contractual maturity dates are as follows:

	31.12.2018	31.12.2017
	RMB'000	RMB'000
Within one year	**1,984,965**	1,377,104
More than one year, but not exceeding two years	**626,947**	245,273
More than two years, but not exceeding five years	**311,708**	1,261,188
More than five years	**127,768**	77,903
	3,051,388	2,961,468
Less: amounts shown under current liabilities	**(1,984,965)**	(1,377,104)
Amounts shown under non-current liabilities	**1,066,423**	1,584,364

34. BORROWINGS *(Continued)*

The ranges of effective interest rates on the Group's borrowings are as follows:

	31.12.2018	31.12.2017
Variable-rate borrowings	**China lending benchmark interest rate + 1.5% to 4.35%**	China lending benchmark interest rate + 0.05% to 0.435%
Fixed-rate borrowings	**2.00% to 13.00% per annum**	2.00% to 6.80% per annum

The Group has pledged certain assets to secure loan facilities granted to the Group. The carrying values of the assets pledged are as follows:

	31.12.2018	31.12.2017
	RMB'000	RMB'000
Property, plant and equipment	**40,053**	–
Financial assets measured at FVTPL	**1,021,060**	1,403,959
	1,061,113	1,403,959

At 31 December 2018, certain shareholders of the Company, including Wealth Max Holding Limited and Chuang Yue Company Limited also pledged the Company's shares with fair value amounting to RMB3,994,072,000 (31 December 2017: RMB2,338,548,000) to the financial institutions for securing financial facilities available to the Group.

35. CONVERTIBLE BONDS

On 14 December 2017 (the "**Issue Date**"), the Company issued HK$ denominated and HK$ settled bonds at par with the aggregate principal amount of HK$800,000,000 with conversion price of HK$3.27 (subject to adjustment) per Share (the "**Convertible Bonds**"). The Convertible Bonds will mature on 13 December 2019 (the "**Maturity Date**") and shall be redeemed by the Company at par on the Maturity Date. The conversion price is subject to downward adjustment for any future issue of Company's shares at a price less than 90% of the market price prior to the Convertible Bonds are redeemed, converted or purchased and cancelled.

The Convertible Bonds bear interest from (and including) the issued date at the rate of (a) 7% per annum for the period from and including the Issue Date up to and excluding the first anniversary of the Issue Date; and (b) 8% per annum for the period from and including the first anniversary of the Issue Date up to and including the Maturity Date, interest is calculated by reference to the principal amount thereof and payable semi-annually in arrear on 20 June and 20 December of each year, commencing with the first interest payment date falling on 20 June 2018.

The Convertible Bonds are guaranteed by Mr. Tang Mingyang, the shareholder of the Company, and secured by an account charge executed by Hongkong Chuang Yue Co., Limited (the "**Chargor**") in favour of the bondholder.

Conversion at the option of the bondholder may occur at any time between the first anniversary of the Issue Date to the close of business on the date falling ten business days prior to the Maturity Date (both days inclusive) ("**Conversion Period**").

During the Conversion Period, any conversion notice raised by the bondholder is subject to acceptance by the Company. An additional 2% per annum simple interest will be imposed on original principal amount of the Convertible Bonds less the aggregate amount of all principal amounts which had been redeemed or converted should the Company refuses to accept the conversion notice from the bondholder.

The Convertible Bonds contain liability component, conversion option and conversion-veto option derivatives. The Company's conversion-veto option are not closely related to the host liability component as the redemption amount after exercising the conversion-veto option is not closed to the amortised cost of the liability on each exercise date. The bondholder's conversion option and the Company's conversion-veto option are measured at fair value with change in fair value recognised in profit or loss.

At the date of issue, the liability component was recognised at fair value, calculated based on the present value of the redemption amount and accrued interest at maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the liability component is 10.39% (2017: 10.39%).

The bondholder's conversion option and the Company's conversion-veto option are measured at fair values at the date of issue and in subsequent periods with changes in fair value recognised in profit or loss.

35. CONVERTIBLE BONDS *(Continued)*

Transaction costs that relate to the issue of the Convertible Bonds are allocated to the liability and the bondholder's conversion option and the Company's conversion-veto option in proportion to their relative fair values. Transaction cost amounting to HK$392,000 relating to the bondholder's conversion option and the Company's conversion-veto option was charged to profit or loss immediately and included in other expenses. Transaction cost amounting to HK$35,608,000 relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the Convertible Bonds using the effective interest method.

The fair values of the Convertible Bonds were determined by the Directors with reference to a valuation report carried out by an independent valuer. At 31 December 2018, the fair value of the options amounted to RMB13,373,000 (31 December 2017: RMB6,945,000). For the year ended 31 December 2018, fair value change of the options amounting to RMB5,865,000 (2017: Nil) was recognised in the profit or loss.

The movement of liability component of the Convertible Bonds for the year is set out as below:

	RMB'000
Upon issuance	639,381
Interest charged *(Note 11)*	3,358
Interest paid	(798)
Exchange realignment	(7,792)
At 31 December 2017	634,149
Interest charged *(Note 11)*	69,211
Interest paid	(47,353)
Exchange realignment	31,411
At 31 December 2018	687,418

At 31 December 2018 and 2017, the fair values of the bondholder's conversion option and the Company's conversion-veto option are calculated using the Binominal Model. Details of the inputs and assumptions of the model are as follows:

	31.12.2018	31.12.2017
Share price of the Company	HK$4.45	HK$3.02
Exercise price	HK$3.27	HK$3.27
Remaining life	1 year	2 years
Risk-free rate	1.89%	1.23%
Expected volatility	69.18%	56.20%
Expected dividend yield	0.00%	0.00%

Expected volatility was determined by using the annualised standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Company as at each year end.

36. DEFERRED INCOME

	Government grants *(Note a)* RMB'000	Advanced tuition fee *(Note b)* RMB'000	Total RMB'000
1 January 2017	28,032	337,353	365,385
Additions	16,900	190,701	207,601
Credit to profit or loss	(2,194)	(212,752)	(214,946)
At 31 December 2017	42,738	315,302	358,040
Reclassification to contract liabilities *(Note 37)*	–	(315,302)	(315,302)
At 1 January 2018	42,738	–	42,738
Additions	5,182	–	5,182
Credit to profit or loss	(2,541)	–	(2,541)
At 31 December 2018	45,379	–	45,379

	31.12.2018 RMB'000	31.12.2017 RMB'000
Analysed for reporting purposes as:		
Current liabilities*	**2,673**	142,586
Non-current liabilities	**42,706**	215,454
	45,379	358,040

* The carrying amount which is expected to be released to profit or loss in the next twelve months from the end of reporting period is classified as current liability.

Notes:

a. The grant represents an amount designated for the expenditure on development of the recycling and purifying facilities received in 2009, and the amounts received in relation to acquisition of certain plant and equipment, which were recorded as deferred income in the consolidated statement of financial position and are credited to profit or loss on a straight-line basis over the expected useful lives of the related assets.

b. Deferred income received in relation to advance tuition fees received resulting from Jinan Baofei and Xishan Schools and were recorded as deferred income in the consolidated statement of financial position and are credited to profit or loss on a straight-line basis over the expected schooling period of respective students as at 31 December 2017. These balances were reclassified to "contract liabilities" upon the adoption of HKFRS 15 starting from 1 January 2018, details of which are set out in Notes 3.1 and 37.

37. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018* RMB'000
Advanced tuition fee	**392,205**	315,302
Advanced from customers	**1,477**	1,957
	393,682	317,259

	31 December 2018 RMB'000	1 January 2018* RMB'000
Analysed for reporting purposes as:		
Current liabilities	**215,816**	142,349
Non-current liabilities	**177,866**	174,910
	393,682	317,259

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The following table shows how much of the revenue recognised in the current year relates to contract liabilities carried-forward from preceding year.

	Advanced tuition fee RMB'000	Advanced from customers RMB'000	Total RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	139,231	1,957	141,188

At 31 December 2018, the contract liabilities represent the Group's obligation to transfer schooling services to customers for which the Group has received advance payments from the customers, the balance will be recognised as revenue for the year ending 31 December 2019 throughout to year ending 31 December 2020.

38. PROVISIONS

	Warranty Provision RMB'000
At 1 January 2017	21,395
Additions	22,866
Utilisations	(39,566)
At 31 December 2017	4,695
Additions	35,620
Utilisations	(36,301)
At 31 December 2018	4,014

The warranty provision represents management's best estimate of the Group's liability under an average warranty period of two years granted to customers, based on prior experience relating to defective products claims.

39. LONG-TERM PAYABLES

	31.12.2018 **RMB'000**	31.12.2017 RMB'000
Long-term payables	**23,086**	27,496

The balance is measured at imputed interest rate of 4.9% per annum, the balance is unsecured and repayable by instalment throughout to 2029. For the year ended 31 December 2018, interest expense of RMB1,146,000 (2017: RMB2,636,000) was recognised as financial costs.

40. CONTINGENT CONSIDERATION PAYABLES

	31.12.2018 **RMB'000**	31.12.2017 RMB'000
Contingent consideration payables	**116,888**	29,923
Less: Amount shown under non-current liabilities	**(50,627)**	(29,923)
Total contingent consideration payables shown under current liabilities	**66,261**	–

40. CONTINGENT CONSIDERATION PAYABLES *(Continued)*

	Xishan Schools RMB'000	Stirling Coleman RMB'000	Xinjiang Edukeys RMB'000	Total RMB'000
1 January 2017	13,814	–	–	13,814
Addition	–	16,212	–	16,212
Exchange difference	–	(103)	–	(103)
31 December 2017	13,814	16,109	–	29,923
Addition	–	–	86,314	86,314
Fair value changes	20,304	–	(20,053)	251
Exchange difference	–	400	–	400
31 December 2018	34,118	16,509	66,261	116,888

The fair values of the contingent consideration payable options arising from acquisition of Xishan Schools are calculated using discounted cash flow model. Major inputs and assumptions of the model are set out in Note 48e.

The fair values of the contingent consideration payable options arising from acquisition of Stirling Coleman is relevant to the management's performance with the fixed agreed amount.

The fair values of the contingent consideration payable options arising from acquisition of Xinjiang Edukeys (Note 42a) as at 31 December 2018 and date of acquisition (6 September 2018) are calculated using Black-Scholes-model. Major inputs and assumptions of the model are as follows:

	31 December 2018	6 September 2018
Share price of the Company	HK$4.45	HK$4.17
Risk-free interest rate	1.81%	1.81%
Expected volatility	47%	47%
Discount rate	14.51%	14.51%

Expected volatility was determined by using the annualised standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Company as at each year end.

41. SHARE CAPITAL

	Number of shares	Share capital
		HK$
Ordinary shares of HK$0.10 each before 28 February 2017		
Ordinary shares of HK$0.02 each since 28 February 2017		
Authorised:		
At 1 January 2017	10,000,000,000	1,000,000,000
Share subdivision on 28 February 2017 *(Note a)*	40,000,000,000	–
At 31 December 2017 and 31 December 2018	50,000,000,000	1,000,000,000
Issued and fully paid:		
At 1 January 2017	896,250,000	89,625,000
Share subdivision on 28 February 2017 *(Note a)*	3,585,000,000	–
Issue of shares *(Note b)*	296,250,000	5,925,000
At 31 December 2017	4,777,500,000	95,550,000
Issue of shares *(Note c)*	76,300,000	1,526,000
Issue of shares *(Note d)*	18,140,000	362,800
Issue of shares *(Note e)*	74,500,000	1,490,000
Issue of shares *(Note f)*	80,452,000	1,609,040
At 31 December 2018	5,026,892,000	100,537,840

	31.12.2018	31.12.2017
	RMB'000	RMB'000
Share capital presented in consolidated statement of financial position	**84,283**	80,096

41. SHARE CAPITAL *(Continued)*

Notes:

a On 28 February 2017, each of the issued and unissued shares of HK$0.10 each in the share capital of the Company has been subdivided into 5 shares of HK$0.02 each, details of which were set out in the Company's announcements dated 27 January 2017, 27 February 2017 and 28 February 2017 and the Company's circular dated 10 February 2017.

b On 12 June 2017, 296,250,000 Shares were issued at HK$3.10 per share by way of consideration issue for the purpose of acquiring 180,438,000 of shares of VIRSCEND EDU (HK.1565), a company listed on the Main Board of the Stock Exchange.

c On 26 February 2018, 76,300,000 Shares were issued at HK$3.08 per share by way of consideration issue for the purpose of acquiring 100% of shares of Tiantai Culture (Note 42b).

d On 26 February 2018, 18,140,000 Shares were issued at HK$3.08 per share by way of consideration issue for the purpose of subscribing 500 of shares, representing 10% of total shares of SJW International, which was recognised as financial assets measured at FVTPL upon completion of the acquisition (Note 29).

e On 6 July 2018, 74,500,000 Shares were issued at HK$4.38 per share by way of consideration issue for the purpose of subscribing 29,400,000 of shares of KSI Education, which was recognised as a joint venture upon completion of the investment (Note 20).

f On 6 September 2018, 80,452,000 Shares were issued at HK$4.17 per share by way of consideration issue for the purpose of acquiring 100% of shares of Xinjiang Edukeys (Note 42a).

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2018

a. Acquisition of Xinjiang Edukeys

On 6 September 2018, the Group acquired 100% equity interest in Xinjiang Edukeys, a company incorporated in PRC, for consideration of (i) issuing 80,452,000 new Shares amounting to HK$335,485,000 (equivalent to RMB291,570,000), determined using the quoted price at the date of the acquisition (ii) a contingent consideration payable amounting to RMB86,314,000. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB202,945,000. Details of the acquisition are set out in the Company's announcement dated 6 September 2018.

Pursuant to the acquisition agreement (the "**Edukeys Sale and Purchase Agreement**"), the outgoing shareholders and management team of Xinjiang Edukeys guaranteed to the Group that the profit for the school year ended 31 August 2018 (prepared in accordance with the "**PRC Accounting Standards**") shall not be less than RMB25,290,000, which has been completed for the year ended 31 December 2018.

Included in the Edukeys Sale and Purchase Agreement, the Group guaranteed the seller of Xinjiang Edukeys that the Group's share price within three months after the lock-up period would not be lower than HK$5.02. Otherwise the Group would compensate the seller the price margin between HK$5.02 and the share price. The guarantee provided by the Group is regarded as contingent consideration payable and is recognised as contingent consideration payables.

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2018 *(Continued)*

a. Acquisition of Xinjiang Edukeys *(Continued)*

Consideration transferred:

	RMB'000
Consideration shares issued	291,570
Contingent consideration *(Note 40)*	86,314
Total	377,884

Assets acquired and liabilities recognised at the date of acquisition are as follow:

	RMB'000
Trade and other receivables#	11,273
Bank balances and cash	16,731
Amounts due from related parties	44,789
Trade and other payables	(10,465)
Tax liabilities	(1,322)
Contract liabilities	(12,270)
Intangible assets	
– Customer relationship	70,090
– Brand	100,126
Deferred tax liabilities	(44,013)
	174,939

The fair value of trade and other receivables at the date of acquisition amounted to RMB11,273,000, which is same as the gross contractual amounts at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to nil.

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2018 *(Continued)*

a. Acquisition of Xinjiang Edukeys *(Continued)*

Goodwill arising on acquisition:

	RMB'000
Consideration	377,884
Less: net assets acquired	(174,939)
Goodwill arising on acquisition	202,945

Goodwill arose in the acquisition of Xinjiang Edukeys because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amount in relation to benefit of expected synergies, future market development, assembled workforce and the cooperation contract of Xinjiang Edukeys.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

Net cash inflow on acquisition of Xinjiang Edukeys:

	RMB'000
Cash and cash equivalent balances acquired	16,731

Included in the loss for the year ended 31 December 2018 is a profit of RMB2,385,000 attributable to the additional business generated by Xinjiang Edukeys. Revenue for the year ended 31 December 2018 includes RMB28,684,000 generated from Xinjiang Edukeys.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been RMB1,839,481,000, and loss for the year would have been RMB1,358,756,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

The acquisition-related costs have been excluded from the consideration transferred and have been recognised as an expense in the current year.

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2018 *(Continued)*

b. Acquisition of Tiantai Culture

On 26 February 2018, the Group acquired 100% equity interest in Tiantai Culture, a company incorporated in Henan Province, the PRC, and its wholly owned subsidiary, namely Kaifeng Tiantai Commercial Hotel Limited* (開封天泰商務酒店有限公司) by (i) allotting and issuing 76,300,000 new Shares, for consideration of HK$235,004,000 (equivalent to RMB190,377,000) and determined using the quoted price at the date of the acquisition, (ii) payment of cash consideration of RMB930,000. This acquisition has been accounted for using the acquisition method and regards as a business combination due to the acquisition including the management team of Tiantai Culture with relevant construction and selling activities. Details of the acquisition are set out in the Company's announcements dated 6 February 2018 and 26 February 2018, respectively. Upon completion of the acquisition, the Group is entitled to obtain economic interests and benefits from the business activities of Tiantai Culture and enable the Group to diversify its business into a new business segment, i.e. properties development and sales business.

Pursuant to the acquisition agreement (the"**Tiantai Sale and Purchase Agreement**"), the sellers of Tiantai Culture guaranteed to the Group that (i) the construction work of the complex owned by Tiantai Culture and its subsidiary shall be completed and be legally available for sale or rent within three years from the date of the Tiantai Sale and Purchase Agreement; and (ii) the aggregate amount of the revenue generated from sales of properties of the complex after tax for the three years ending on the third anniversary date of the Tiantai Sale and Purchase Agreement (prepared in accordance with the PRC GAAP) and the fair value of the leased properties of the complex as at the third anniversary date of the Tiantai Sale and Purchase Agreement shall not be less than RMB202,000,000.

* For identification purpose only

Consideration transferred:

	RMB'000
Consideration shares issued	190,377
Consideration payable	930
Total	191,307

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2018 *(Continued)*

b. Acquisition of Tiantai Culture *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follow:

	RMB'000
Property, plant and equipment	2,331
Trade and other receivables*	20,297
Bank balances	38
Property under development for sale**	258,958
Other payables	(62,387)
Other borrowings	(12,980)
Deferred tax liabilities	(14,950)
	191,307

* The fair value of trade and other receivables at the date of acquisition amounted to RMB20,297,000, which is same as the gross contractual amounts at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to nil.

** As at the date of acquisition, the Group intends to sell all the properties generated from acquisition in the future.

Net cash inflow on acquisition of Tiantai Culture:

	RMB'000
Cash and cash equivalent balances acquired	38

Included in the loss for the year ended 31 December 2018 is a loss of RMB4,798,000 attributable to the additional business generated by Tiantai Culture. No revenue has been generated from Tiantai Culture for the year ended 31 December 2018.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have been the same, and loss for the year would have been RMB1,361,169,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

The acquisition-related costs have been excluded from the consideration transferred and have been recognised as an expense in the current year.

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2018 *(Continued)*

c. Acquisition of Jinlu Yuda

On 14 December 2018, the Group acquired another 70% shares of Jinlu Yuda at cash consideration of RMB8,200,000. Upon the completion of the acquisition, Jinlu Yuda became a subsidiary controlled by the Group. The acquisition was not regarded as business combination and was accounted for the purchase of assets and liabilities.

Consideration transferred:

	RMB'000
Cash consideration paid	8,200
Interest in an associate (20% equity interest in Jinlu Yuda)	1,600
	9,800

Assets acquired and liabilities recognised at the date of acquisition are as follow:

	RMB'000
Bank balances and cash	36
Other receivables	9
Amount due from immediate holding company	7,919
Property, plant and equipment	28
Other payables	(10)
	7,982

Loss arising on acquisition:

	RMB'000
Consideration transferred	9,800
Add: non-controlling interests (10% in Jinlu Yuda)	798*
Less: net assets acquired	(7,982)
Loss arising on acquisition	2,616

* The non-controlling interest was measured at its proportionate share of recognised amounts of the acquiree's identifiable net assets.

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2018 *(Continued)*

c. Acquisition of Jinlu Yuda *(Continued)*

Net cash outflow on acquisition of Jinlu Yuda:

	RMB'000
Cash consideration paid	8,200
Less: cash and cash equivalent balances acquired	(36)
	8,164

For the year ended 31 December 2017

d. Acquisition of Stirling Coleman

On 4 July 2017, the Group acquired 100% equity interest in Stirling Coleman, a company incorporated in Republic of Singapore for (i) a Singapore dollar denominated cash consideration equivalent to RMB61,232,000, (ii) a Singapore dollar denominated consideration payable equivalent to RMB8,354,000 and (iii) performance consideration payables by reference to agreed terms stipulated in the acquisition agreement. This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was RMB11,753,000. Details of the acquisition are set out in the Company's announcement dated 4 July 2017.

Consideration transferred:

	RMB'000
Cash consideration	61,232
Consideration payable	8,354
Contingent consideration payables	16,212
Total	85,798

At the acquisition date, the fair value of the contingent consideration payable was determined with reference to the management's estimation of future profits.

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2017 *(Continued)*

d. Acquisition of Stirling Coleman *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follow:

	RMB'000
Property, plant and equipment	264
Trade and other receivables*	2,565
Bank balances	34,432
Intangible assets	58,106
Amounts owing to ex-shareholders	(13,497)
Other payables	(622)
Deferred tax liabilities	(9,878)
Other assets	2,675
	74,045

* The fair value of trade and other receivables at the date of acquisition amounted to RMB2,565,000, which was same as the gross contractual amounts at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to nil.

Goodwill arising on acquisition:

	RMB'000
Consideration	85,798
Less: net assets acquired	(74,045)
Goodwill arising on acquisition	11,753

Goodwill arose in the acquisition of Stirling Coleman because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amount in relation to benefit of expected synergies, future market development and the assembled workforce of Stirling Coleman. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2017 *(Continued)*

d. Acquisition of Stirling Coleman *(Continued)*

Net cash outflow on acquisition of Stirling Coleman:

	RMB'000
Cash consideration paid	61,232
Less: cash and cash equivalent balances acquired	(34,432)
	26,800

Included in the loss for the year ended 31 December 2017 was a loss of RMB2,117,000 attributable to the additional business generated by Stirling Coleman. Revenue for the year ended 31 December 2017 included RMB2,944,000 generated from Stirling Coleman.

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been RMB1,894,030,000, and loss for the year would have been RMB289,489,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

Acquisition-related costs amounting to RMB330,000 have been excluded from the consideration transferred and have been recognised as an expense in the previous year, within the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

e. Acquisition of FC Dingge (as defined in Note 50)

On 24 April 2017, the Group acquired another 40% shares of FC Dingge with an investment cost of RMB1,662,000. Upon completion, FC Dingge became a wholly-owned subsidiary of the Company. FC Dingge was inactive and did not constitute a business at the acquisition date. The acquisition was accounted for the purchase of assets and liabilities.

Consideration transferred:

	RMB'000
Cash consideration paid	416
Waive of loan receivable from ex-shareholder of FC Dingge	1,246
Total	1,662

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2017 *(Continued)*

e. Acquisition of FC Dingge (as defined in Note 50) *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follow:

	RMB'000
Bank and cash	4,128
Other receivables	27
	4,155
Less: interests in a joint venture (60% equity interest in FC Dingge)	(2,493)
	1,662

Net cash inflow on acquisition of FC Dingge:

	RMB'000
Cash consideration paid	416
Less: cash and cash equivalent balances acquired	(4,128)
	(3,712)

The acquisition-related costs of acquisition of FC Dingge was immaterial.

f. Disposal of Fushang Equity Investment Fund Management (Shanghai) Company Limited ("Fushang")

For the year ended 31 December 2017, Fushang and its subsidiaries (the "**Disposal Group**") were disposed of at a cash consideration of RMB1. As at the disposal date in June 2017, the Disposal Group has net liabilities of RMB23,560,000 primarily consisting of current account of RMB29,783,000 payables to the Group and was recognised as "other receivables" at the disposal date. The amount due from the Disposal Group was subsequently settled on 28 August 2017.

Consideration received:

	RMB
Cash received	1
Total	1

42. ACQUISITION AND DISPOSAL OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2017 *(Continued)*

f. Disposal of Fushang Equity Investment Fund Management (Shanghai) Company Limited ("Fushang") *(Continued)*

Analysis of assets and liabilities over which control was lost:

	RMB'000
Property, plant and equipment	1,050
Bank balances and cash	72
Trade and other receivables	5,101
Amount due to the Group	(29,783)
Net liabilities disposed of	(23,560)

Gain on disposal of a subsidiary:

	RMB'000
Consideration received	–*
Less: net liabilities disposed of	(23,560)
Gain on disposal	23,560

Net cash outflow on disposal of a subsidiary:

	RMB'000
Cash consideration	–*
Less: cash and cash equivalent balances disposed of	(72)
	(72)

* Less than RMB1,000.

43. OPERATING LEASE COMMITMENTS

The Group as lessee

The minimum lease payment under operating lease in respect of office premises and company premises amounted to RMB60,910,000 (2017: RMB27,328,000) for the year ended 31 December 2018.

At the end of the reporting period, the Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	31.12.2018	31.12.2017
	RMB'000	RMB'000
Within one year	**17,321**	24,988
Between the second and the fifth year inclusive	**43,589**	2,340
	60,910	27,328

Operating lease payments represent rental payable by the Group for certain office premises and land premises. Leases are negotiated for original terms of 1 to 2 years with fixed rental payment.

44. OTHER COMMITMENTS

	31.12.2018	31.12.2017
	RMB'000	RMB'000
Capital expenditure in respect of acquisition of plant and machinery and construction costs		
– Contracted for but not provided in the consolidated financial statements	**24,249**	3,217
Capital expenditure in respect of investments in joint ventures		
– Contracted for but not provided in the consolidated financial statements	**479,300**	485,520

45. RELATED PARTY DISCLOSURES

Other than those transactions with related parties disclosed elsewhere in the consolidated financial statements, the remuneration of the Directors and other members of key management for the years ended 31 December 2018 and 2017 were as follows:

	31.12.2018	31.12.2017
	RMB'000	RMB'000
Short-term benefits	**18,018**	27,906
Post-employment benefits	**43**	55
Other benefits in kind	**–**	173
	18,061	28,134

46. RETIREMENT BENEFIT PLAN

The employees of the Group are either members of state-managed retirement benefit scheme operated by the PRC government or members of the Mandatory Provident Fund Scheme in Hong Kong or members of the Central Provident Fund in Singapore. The Company's subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

47. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts (which include borrowings, convertible bonds and non-trade related amounts due to joint ventures and an associate), net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and retained earnings (losses).

The management of the Group reviews the capital structure periodically. As part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the management, the Group will balance its overall capital structure through the payment of dividends and raising of new capital as well as the issue of new debt or the redemption of existing debt.

48. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

		Carrying amount at 31 December	
		2018	2017
		RMB'000	RMB'000
Financial assets			
Security account balances	At amortised cost (2017: Loans and receivables)	**17,326**	7,969
Restricted bank balances	At amortised cost (2017: Loans and receivables)	**625,263**	556,252
Bank balances and cash	At amortised cost (2017: Loans and receivables)	**302,966**	686,477
Amounts due from joint ventures	At amortised cost (2017: Loans and receivables)	**40,259**	–
Trade and other receivables#	At amortised cost (2017: Loans and receivables)	**992,689**	674,850
Loan and interest receivables	At amortised cost (2017: Loans and receivables)	**1,144,886**	511,963
Financial assets measured at FVTPL	FVTPL	**2,631,330**	2,868,614
AFS Investments	AFS	**–**	616,184
Financial liabilities			
Trade and other payables##	At amortised cost	**1,484,121**	1,262,604
Amounts due to joint ventures	At amortised cost	**77,049**	103,270
Amount due to an associate	At amortised cost	**2,499**	2,425
Borrowings – due within one year	At amortised cost	**1,984,965**	1,377,104
Borrowings – due after one year	At amortised cost	**1,066,423**	1,584,364
Convertible bonds	At amortised cost	**687,418**	634,149
Long-term payables	At amortised cost	**23,086**	27,496
Embedded derivative components of the convertible bonds	FVTPL	**13,373**	6,945
Contingent consideration payables	FVTPL	**116,888**	29,923

Excluded advances to suppliers and value-added tax recoverables.

Excluded payroll and welfare payables, other tax payable and accruals, social insurance payable, advance received in respect of transfer of equity interest in and share subscription for subsidiaries.

48. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies

The management monitors and manages the financial risks relating to the operations of the Group through internal risk assessment which analyses exposures by degree and magnitude of risks. The risks included market risk (including interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the restricted bank balances and bank balances, and variable rate of interest incurred on bank borrowings. The Group is also exposed to fair value interest rate risk in relation to fixed-rate loan receivables, certain borrowings and convertible bonds. It is the Group's policies to maintain an appropriate level between its fixed-rate and variable-rate borrowings so as to minimise the fair value and cash flow interest rate risk.

The Group has not used any financial instrument to hedge the interest rate risk that it is exposed to currently. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Sensitivity analysis

If interest rate of variable-rate bank balances had been 10 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2018 would have decreased/increased by RMB752,000 (2017: RMB1,010,000).

If interest rate of variable-rate borrowings had been 10 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2018 would have increased/decreased by RMB31,000 (2017: RMB153,000).

In the director's opinion, the sensitivity analysis above is unrepresentative for the interest rate risk as the exposure at the end of reporting period does not reflect the exposure during the year.

48. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

(ii) Currency risk

The Group hold monetary assets or liabilities denominated in foreign currencies, which can be affected by currency fluctuations and expose to currency risks. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	31.12.2018	31.12.2017
	RMB'000	RMB'000
Bank balances	**14,245**	58,903
Security account balances	**15,915**	24,453
Amount due from fellow subsidiaries	**586,220**	1,705,011
Borrowings	**(638,388)**	(305,441)

Based on the above net exposures, and assuming that all other variables remain constant at year end, a 5% (2017: 5%) appreciation/depreciation of the functional currency of respective group entities against foreign currencies would result in a decrease/increase in the Group's loss for the year of RMB919,000 for the year ended 31 December 2018 (2017: RMB61,907,000 increase/decrease in the Group's loss for the year). In the director's opinion, the sensitivity analysis above is unrepresentative for the currency risk as the exposure at the end of reporting period does not reflect the exposure during the year.

The Group monitors foreign currency exposure and will consider hedging significant currency exposure should the need arises.

48. FINANCIAL INSTRUMENTS *(Continued)*

b. Financial risk management objectives and policies *(Continued)*

(iii) Other price risk on share price

The Group hold listed equity investments, which can be affected by share price fluctuations and expose to other price risk on share price.

Sensitivity analysis

- If the share prices of financial assets measured at fair value through profit or loss and the available for sale investments measured at fair value had been (i) 5% (2017: 5%) higher, post-tax loss for the year ended 31 December 2018 would have decreased by RMB88,155,000 (2017: RMB116,048,000), and the other comprehensive income net of tax effect would have increased by nil (2017: RMB16,225,000); (ii) 5% (2017: 5%) lower, post-tax loss for the year ended 31 December 2018 would have increased by RMB88,155,000 (2017: RMB125,649,000), and the other comprehensive income net of tax effect would have decreased by nil (2017: RMB6,624,000).

- If the share price of the Company inputted to the valuation model for assessing the fair value of the embedded derivative components of the Company's convertible bonds had been 10% (2017: 10%) higher/lower while all other variables were held constant, the impact to the loss for the year ended 31 December 2018 is insignificant (2017: insignificant).

- If the expected volatility of share price of the Company inputted to the valuation model for assessing the fair value of such derivatives had been 10% (2017: 10%) higher/lower while all other variables were held constant, the impact to the loss for the year ended 31 December 2018 is insignificant (2017: insignificant).

In the director's opinion, the sensitivity analysis above is unrepresentative for the other price risk as the exposure at the end of reporting period does not reflect the exposure during the year.

c. Credit risk and impairment assessment

Under HKAS 39 and HKFRS 9

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations. At 31 December 2018, under the automotive parts business, the Group had concentration of credit risk on trade receivables as 34.2% (31 December 2017: 59.1%) of total trade receivables were due from top 10 customers. Among which, the balance of the top 1 customer accounts for 10.1% (31 December 2017: 28.9%) of total trade receivables. The management considered no impairment is necessary for those balances which are not past due.

The Group had concentration of credit risk by geographical location as trade receivables and bills receivables comprise various debtors which are all located in PRC for the years ended 31 December 2018 and 2017.

48. FINANCIAL INSTRUMENTS *(Continued)*

c. Credit risk and impairment assessment *(Continued)*

HKFRS 9

Starting from 1 January 2018, the Group reassess the lifetime ECL for trade receivables, bills receivables and loan and interest receivables at the end of each reporting period to ensure that adequate impairment losses are made for significant increases in the likelihood or risk of a default occurring since initial recognition. In this regard, management of the Group considers that the Group's credit risk is significantly reduced.

From 1 January 2018, the Group applied ECL model upon adoption of HKFRS 9. The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis.

Trade receivables and loan and interest receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade receivables and loan and interest receivables individually. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Bills receivables arising from contracts with customers

The credit risks on bills receivables are limited because the counterparties are banks with high credit ratings assigned by credit-rating agencies.

Other receivables/amounts due from joint ventures/security account balances/restricted bank balances/ bank balances and cash

The credit risks on other receivables are limited because other receivables mainly contains: receivables from the associate of the non-controlling shareholders of Xishan Schools associates, which are guaranteed by the current non-controlling shareholders of Xishan Schools; deposits receivable from other third parties, staff loan and others.

Amounts due from joint ventures are mainly the amount due from FC Wentou. The credit risk on the receivable is limited due to the good operation and sufficient assets of FC Wentou.

The credit risks on security account balances, restricted bank balances and bank balances and cash are limited because the counterparties are banks/financial institutions with high credit ratings assigned by credit-rating agencies.

48. FINANCIAL INSTRUMENTS *(Continued)*

c. Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ bills receivables/ loan and interest receivables	Financial assets other than trade receivables, bills receivables loan and interest receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

48. FINANCIAL INSTRUMENTS *(Continued)*

c. Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	External credit rating	Internal credit rating	12-month or lifetime	Carrying amount before ECL RMB'000	Carrying amount after ECL RMB'000
Financial assets at amortised costs					
Pledged bank deposits*	AA	N/A	12-month ECL	642,589	642,589
			Lifetime ECL (not credit impaired)	–	–
			Credit-impaired	–	–
				642,589	642,589
Bank balances	AA+	N/A	12-month ECL	296,713	296,713
			Lifetime ECL (not credit impaired)	–	–
			Credit-impaired	–	–
				296,713	296,713
Amounts due from joint ventures	N/A	N/A	12-month ECL	40,259	40,259
			Lifetime ECL (not credit impaired)	–	–
			Credit-impaired	–	–
				40,259	40,259
Trade and other receivables	N/A	Low risk	Lifetime ECL (not credit impaired)	882,594	882,235
		Watch list	Lifetime ECL (not credit impaired)	26,060	23,897
		Doubtful	Lifetime ECL (not credit impaired)	96,916	86,557
		Loss	Credit-impaired	4,653	–
				1,010,223	992,689
Loan and interest receivables	N/A	Low risk	Lifetime ECL (not credit impaired)	–	–
		Watch list	Lifetime ECL (not credit impaired)	1,137,436	1,104,571
		Doubtful	Lifetime ECL (not credit impaired)	4,748	4,239
		Loss	Credit-impaired	59,922	36,076
				1,202,106	1,144,886

* Pledged bank deposits include security account balances/restricted bank balances.

48. FINANCIAL INSTRUMENTS *(Continued)*

c. Credit risk and impairment assessment *(Continued)*

For the year ended 31 December 2018, the Group provided RMB4,083,000 impairment losses for trade receivables, and RMB57,220,000 impairment losses for loan and interest receivables based on the individual assessment, representing impairment losses under lifetime ECL assessment.

The Group writes off trade receivables and loan and interest receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

No allowance has been recognised for other receivables and amounts due from joint ventures as the expected loss for these receivables is immaterial under 12m ECL model based on the Group's assumption on the rates of default of respective counterparties are insignificant.

d. Liquidity risk

In the management of the liquidity risk, the Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by the management to meet in full its financial obligations as they fall due for the foreseeable future. The management monitors the utilisation of bank and other borrowings.

The following table details the Group's remaining contractual maturity for its financial liabilities as at the end of reporting period. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

48. FINANCIAL INSTRUMENTS *(Continued)*

d. Liquidity risk *(Continued)*

Liquidity and interest risk tables

	Weighted average effective interest rate %	Within 3 months RMB'000	3 months to 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Undiscounted cash flows RMB'000	Carrying amount RMB'000
As at 31 December 2018								
Amount due to an associate	N/A	2,499	–	–	–	–	2,499	2,499
Trade and other payables *(Note)*	N/A	1,283,318	200,596	85	161	1	1,484,161	1,484,121
Borrowings	9.41	870,722	1,211,800	687,236	376,203	162,322	3,308,283	3,051,388
Long-term payables	4.9	–	–	–	–	29,410	29,410	23,086
Amounts due to a joint venture	N/A	77,049	–	–	–	–	77,049	77,049
Convertible bond	10.4	–	726,314	–	–	–	726,314	687,418
Embedded derivative components of convertible bonds	N/A	–	13,373	–	–	–	13,373	13,373
Contingent consideration payables	N/A	18,887	47,374	50,627	–	–	116,888	116,888
		2,252,475	2,199,457	737,948	376,364	191,733	5,757,977	5,455,822
As at 31 December 2017								
Amount due to an associate	N/A	2,425	–	–	–	–	2,425	2,425
Trade and other payables *(Note)*	N/A	1,145,860	57,799	58,733	214	34	1,262,640	1,262,604
Borrowings	11.57	347,495	1,178,193	289,849	1,308,651	180,015	3,304,203	2,961,468
Long-term payables	4.9	–	–	–	–	31,788	31,788	27,496
Amount due to a joint venture	N/A	103,270	–	–	–	–	103,270	103,270
Convertible bond	10.4	769	46,041	687,647	–	–	734,457	634,149
Embedded derivative components of convertible bonds	N/A	–	–	6,945	–	–	6,945	6,945
Contingent consideration payable	N/A	–	–	16,109	13,814	–	29,923	29,923
		1,599,819	1,282,033	1,059,283	1,322,679	211,837	5,475,651	5,028,280

Note: Other payables to employees included in trade and other payables are discounted at effective interest rate of 3.6% per annum.

48. FINANCIAL INSTRUMENTS *(Continued)*

e. Fair value

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on recurring basis

The fair value of financial assets and financial liabilities other than financial assets measured at fair value through profit or loss, contingent consideration payables and embedded derivative components of convertible bonds is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis

Some of the Group's financial instruments are measured at fair value for financial reporting purpose. In estimating the fair value, the Group use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The following table gives information about how the fair values of these financial assets are determined (in particular, the techniques and inputs used).

Fair value hierarchy as at 31 December 2018

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets measured at FVTPL				
– listed securities	2,066,477	–	–	2,066,477
– equity investments				
(Quoted bid prices in an active market)	97,411	–	–	97,411
– financial product				
(Quoted by the financial institution)	–	6,535	–	6,535
– equity investments				
(Quoted by the fund manager)	–	136,960	–	136,960
– equity investments (unlisted company)	–	–	323,947	323,947
Embedded derivative components of				
convertible bonds	–	–	(13,373)	(13,373)
Contingent consideration payables	–	–	(116,888)	(116,888)

Fair value hierarchy as at 31 December 2017

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets measured at FVTPL				
– listed securities	2,868,614	–	–	2,868,614
AFS investments – equity investments	274,310	176,640	–	450,950
Embedded derivative components of convertible bonds	–	–	(6,945)	(6,945)
Contingent consideration payables	–	–	(29,923)	(29,923)

48. FINANCIAL INSTRUMENTS *(Continued)*

e. Fair value *(Continued)*

Financial assets/ financial liabilities	Fair value as at 31.12.2018 RMB'000	Fair value as at 31.12.2017 RMB'000	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Financial assets measured at FVTPL – listed securities	**2,066,477**	2,868,614	Level 1	Quoted bid prices in an active market	N/A
Financial assets measured at FVTPL – equity investments (2017: AFS investments)	**97,411**	274,310	Level 1	Quoted bid prices in an active market	N/A
Financial assets measured at FVTPL- financial product	**6,535**	–	Level 2	Quoted prices from the financial institution which reference to the fair value of actual investment portfolio underlying in the financial product	N/A
Financial assets measured at FVTPL – equity investments(2017: AFS investments)	**136,960**	176,640	Level 2	Quoted prices from the fund manager by reviewing the invested listed share prices excluded relevant expenses	N/A
Financial assets measured at FVTPL – equity investments (unlisted company)	**323,947**	–	Level 3	Comparable Company Model Comparable company is employed in deriving the fair value of the financial assets measured at FVTPL – equity investments.	P/E Multiple of 33.57; P/S Multiple of 1.96
Embedded derivative components of the Convertible Bonds classified as financial liabilities at FVTPL	**(13,373)**	(6,945)	Level 3	Binomial Pricing Model Binomial Pricing Model is employed in deriving the fair value of the Convertible Bonds. The value of the embedded derivatives components is the difference between the value of the Convertible Bonds and the fair value of the liability component of Convertible Bonds, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity of 1 year (2017: 2 years), risk-free rate of 1.89% (2017: 1.23%), spot price as of the valuation date of HK$4.45 (2017: HK$3.02), exercise price of HK$3.27 (2017: HK$3.27) and expected volatility of 69.18% (2017: 56.20%).	Expected volatility of stock price

48. FINANCIAL INSTRUMENTS *(Continued)*

e. Fair value *(Continued)*

Financial assets/ financial liabilities	Fair value as at 31.12.2018 RMB'000	Fair value as at 31.12.2017 RMB'000	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
Contingent consideration payables	**(116,888)**	(29,923)	Level 3	Xishan Schools: Discounted cash flow model was used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, based on an appropriate discount rate. Discount rate of 15.74% (2017:14.12%) for Xishan Schools, long-term sustainable growth rate of 3% (2017:3%) and risk-free rate of 2.33% (2017:1.3%) are used in the model.	Xishan Schools: discount rate
				Xinjiang Edukeys: Black-Scholes-Merton Option Pricing model were used to capture the present value of the expected future economic benefits that will flow out of the Group arising from the contingent consideration, risk-free rate of 1.81%, expected volatility of 47% and stock price as at date of valuation of HK$4.45 are used in the model.	Xinjiang Edukeys: expected volatility of stock price

There were no transfers between the level 1 and level 2 of the fair value hierarchy for the year.

48. FINANCIAL INSTRUMENTS *(Continued)*

e. Fair value *(Continued)*

Reconciliation of Level 3 fair value measurements

	Financial assets measured at FVTPL-equity investments RMB'000	Embedded derivatives components of convertible bonds RMB'000	Contingent consideration payables RMB'000	Total RMB'000
At 1 January 2017	–	–	(13,814)	(13,814)
Arising from acquisition of businesses	–	–	(16,212)	(16,212)
Arising from issuance of convertible bonds	–	(6,945)	–	(6,945)
Exchange realignment	–	–	103	103
At 31 December 2017	–	(6,945)	(29,923)	(36,868)
Addition	332,131	–	–	332,131
Arising from acquisition of businesses	–	–	(86,314)	(86,314)
Fair value loss recognised in profit or loss	(8,184)	(5,865)	(251)	(14,300)
Exchange difference	–	(563)	(400)	(963)
At 31 December 2018	323,947	(13,373)	(116,888)	193,686

49. NON-CASH TRANSACTIONS

a. For the year ended 31 December 2018, other receivables from Party A (Note 26) of RMB90,000,000 was to set off with the payables to the non-controlling shareholders of Xishan Schools (Note 32) and consideration payables for acquisition of businesses to the non-controlling shareholders of Xishan Schools of RMB40,000,000 and RMB50,000,000, respectively, as agreed among the parties.

b. For the year ended 31 December 2018, the advance received in respect of capital injection in Guang Da amounting to RMB38,454,000 (Note 32c) has been transferred to equity upon completion of the transaction.

c. For the year ended 31 December 2018, an amount of RMB39,666,000 due from the joint venture was set off with a corresponding amount of payable to the same party upon entering into an agreement (Note 34).

50. PARTICULARS OF SUBSIDIARIES

As at 31 December 2018, the Company has the following indirectly held, unless otherwise stated, principal subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group 31.12.2018	31.12.2017	Principal activities	Legal form
Beijing Edukeys International Management Consulting Company Limited* 北京中際育才國際管理顧問有限公司	PRC 23 May 2008	RMB3,000,000	**100%**	N/A	Education service	Domestic limited Liability company
BRILLIANT RICH HOLDINGS LIMITED	BVI 4 May 2012	US$100	**100%**	100%	Investment holding	Private limited liability company
CFCG INVESTMENT PARTNERS INTERNATIONAL (AUSTRALIA) PTY LTD.	Australia 25 July 2016	US$100	**100% (directly)**	100% (directly)	Investment holding	Private limited liability company
CFCG INVESTMENT PARTNERS INTERNATIONAL (SINGAPORE) PTE. LTD.	Singapore 24 May 2016	SGD2,000,000	**100% (directly)**	100% (directly)	Investment consulting	Private limited liability company
First Capital Asset Management Limited	Hong Kong 4 June 2014	HK$33,000,000 (2017: HK$23,000,000)	**100%**	100%	Asset management	Private limited liability company
First Capital Dingge Investment Management (Shenzhen) Company Limited* ("**FC Dingge**") 首控鼎革投資管理(深圳)有限公司	PRC 11 March 2016	RMB5,000,000	**100%**	100%	Educational investment and operation	Domestic limited liability company
First Capital Education Investment (Shenzhen) Company Limited* 首控教育投資(深圳)有限公司	PRC 9 March 2016	RMB100,000,000	**100%**	100%	Educational investment and operation	Domestic limited liability company
First Capital Finance Limited	Hong Kong 29 January 2015	HK$10,000,000	**100% (directly)**	100% (directly)	Credit financing	Private limited liability company

50. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group 31.12.2018	Effective equity interest attributable to the Group 31.12.2017	Principal activities	Legal form
First Capital Financial Group Limited (Formerly known as First Capital Group Limited)	BVI 28 November 2012	US$1	100% (directly)	100% (directly)	Investment holding	Private limited liability company
First Capital Fund Management Company Limited* 首控基金管理有限公司	PRC 14 September 2012	RMB500,000,000	100%	100%	Fund Management	Domestic limited liability company
First Capital International Finance Limited	Hong Kong 25 February 2016	HK$30,000,000 (2017: HK$20,000,000)	100%	100%	Financial consulting	Private limited liability company
First Capital International Holdings Limited	Hong Kong 23 January 2015	HK$10,000,000	100%	100%	Investment holding	Private limited liability company
FIRST CAPITAL INTERNATIONAL INVESTMENTS HOLDINGS LIMITED	Hong Kong 23 September 2015	HK$100,000,000	100%	100%	Investment holding	Private limited liability company
First Capital Securities Limited	Hong Kong 23 July 2015	HK$300,000,000	100%	100%	Dealing and underwriting in securities	Private limited liability company
First Capital (Shenzhen) Equity Investment Fund Management Company Limited* 首控(深圳)股權投資基金管理有限公司	PRC 23 December 2016	US$2,000,000	100%	100%	Fund management	Foreign invested limited liability company
Fuqing Guowen Education Management Company Limited* 福清市國文教育管理有限公司	PRC 4 May 2016	RMB2,600,000	58.3%	58.3%	Investment holding	Domestic limited liability company
Fuqing Xishan School* 福清西山学校/ Fuqing Xishan Vocational and Technical School* 福清西山職業技術學校	PRC 16 June 2005/ 23 September 2008	RMB33,120,000	58.3%	58.3%	Educational services	Non-enterprise entity
Fuzhou Quanyue Education Consulting Company Limited* 福州全悅教育諮詢有限公司	PRC 28 July 2016	HK$2,000,000	58.3%	58.3%	Educational consulting	Foreign invested limited liability company

50. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group 31.12.2018	31.12.2017	Principal activities	Legal form
GUANG DA (CHINA) AUTOMOTIVE COMPONENTS HOLDINGS LIMITED ("**Guang Da**")	Hong Kong 14 June 2010	HK$1,000 (2017: HK$740)	**74%**	100%	Investment holding	Private limited liability company
Jiangxi Xishan School* 江西省西山学校/ Xishan Education Group* 西山教育集團	PRC 18 December 2001/ 30 July 2003	RMB45,570,000	**58.3%**	58.3%	Educational services	Non-enterprise entity
Jinan Baofei Enterprise Management Company Limited* ("**Jinan Baofei**") 濟南寶飛企業管理有限公司	PRC 6 June 2016	RMB10,000,000	**51%**	51%	Investment holding	Domestic limited liability company
Jinan First Capital Education Consulting Company Limited* 濟南首控教育諮詢有限公司	PRC 17 November 2016	US$1,000,000	**51%**	51%	Educational consulting	Foreign invested limited liability company
Jinan Shijiyinghua Experiment School* 濟南世紀英華實驗學校	PRC 30 August 2003	RMB10,000,000	**51%**	51%	Educational services	Non-enterprise entity
Jinxian Xishan Education Management Company Limited* 進賢縣西山教育管理有限公司	PRC 4 May 2016	RMB2,500,000	**58.3%**	58.3%	Investment holding	Domestic limited liability company
Jinlu Yuda Education Management Co., Limited * ("**Jinlu Yuda**") 金路育達教育管理有限責任公司	PRC 8 December 2017	RMB50,000,000	**90%**	20%	Educational management	Domestic limited liability company
Kaifeng Tiantai Business Hotel Limited* 開封天泰商務酒店有限公司	PRC 9 July 2012	RMB25,000,000	**100%**	N/A	Property development	Domestic limited Liability company
Kaifeng Tiantai Culture Media Limited* ("**Tiantai Culture**") 開封天泰文化傳媒有限公司	PRC 27 August 2009	RMB318,000,000	**100%**	N/A	Property development	Domestic limited Liability company

50. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group 31.12.2018	31.12.2017	Principal activities	Legal form
NANYANG CIJAN AUTO ABSORBER CO., LTD. ("**Nanyang Cijan**")	PRC 23 June 2005	HK$320,000,000	**51.8%**	70%	Research, development and manufacture of automobile shock absorber and suspension system products	Foreign invested limited liability company
Ordos Cijan Auto Shock Absorber Company Limited* 鄂爾多斯市浙減汽車減振器有限公司	PRC 14 August 2012	RMB10,000,000	**100%**	100%	Research, development and manufacture of automobile shock absorber and suspension system products	Domestic limited liability company
Shanghai Shenlian Investment Management Company Limited* 上海申聯投資管理有限公司	PRC 30 March 2007	RMB2,000,000	**100%**	100%	Investment holding	Domestic limited liability company
Shenzhen Crown Bridge Immigration Consulting Limited* 深圳冠橋移民諮詢有限公司	PRC 1 April 2014	RMB8,500,000	**65%**	65%	Immigration Consulting business	Domestic limited liability company
Shenzhen First Capital International Business Consulting Limited* 深圳首控國際商務咨詢有限公司	PRC 22 April 2015	HK$50,000,000	**100%**	100%	Immigration Consulting business	Foreign invested limited liability company
Shenzhen Juntour Immigration Consulting Services Limited* 深圳君拓移民諮詢服務有限公司	PRC 27 November 2014	RMB5,000,000	**51%**	51%	Immigration Consulting business	Domestic limited liability company
Shenzhen Qianhai First Capital Financial Leasing Company Limited* 深圳前海首控融資租賃有限公司	PRC 27 August 2015	US$30,000,000	**100%**	100%	Investment holding	Foreign invested limited liability company

50. PARTICULARS OF SUBSIDIARIES *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group 31.12.2018	31.12.2017	Principal activities	Legal form
Sichuan Yujiage Hotel Management Company Limited* 四川裕嘉閣酒店管理有限公司	PRC 1 August 2012	RMB120,000,000	**100%**	100%	Investment holding	Domestic limited liability company
STIRLING COLEMAN CAPITAL LIMITED ("**Stirling Coleman**")	Singapore 2001	SGD$3,000,000	**100%**	100%	Financial consulting	Private limited liability company
Xinjiang Edukeys International Education Services Co., Ltd.* ("**Xinjiang Edukeys**") 新疆中際育才教育諮詢有限公司	PRC 29 November 2016	RMB5,000,000	**100%**	N/A	Education service	Domestic limited liability company
Fuzhou Xishan Education Management Company Limited* 福州市西山教育管理有限公司	PRC 19 April 2016	RMB5,000,000	**58.3%**	58.3%	Investment holding	Domestic limited liability company
Yunnan First Capital Education Management Company Limited* ("**FC Yunnan**") 雲南首控教育管理有限公司	PRC 1 July 2016	RMB430,000,000 (2017: RMB100,000,000)	**70%**	100%	Educational investment	Domestic limited liability company
Zhuhai First Capital Huijing Equity Investment Fund (Limited Partnership) 珠海首控匯錦股權投資基金合夥企業(有限合夥)	PRC 13 June 2017	RMB100,000,000	**2.5%**	2.5%	Capital Investment	Limited partnership

* The English name is for identification purposes only.

None of the above subsidiaries had issued any debt securities during the years or at the end of reporting period.

Except for the subsidiaries registered in BVI, whose mainly operation places are in Hong Kong, the remaining entities' mainly operation places are the same as their registration places.

51. DETAILS OF NON-WHOLLY-OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place incorporation/ establishment and principal place of business	Proportion of ownership and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		31.12.2018	31.12.2017	**2018**	2017	**31.12.2018**	31.12.2017
		%	%	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Nanyang Cijan	PRC	**48.2%**	30%	**9,564**	(1,706)	**109,978**	116,169
Jinan Baofei*	PRC	**49%**	49%	**7,707**	5,157	**66,876**	61,441
Xishan Education*	PRC	**41.7%**	41.7%	**(4,704)**	(1,086)	**111,652**	116,356
Individually immaterial subsidiaries with non-controlling interests				**17,875**	(67)	**288,617**	(2,075)
Total				**30,442**	2,298	**577,123**	291,891

* They are the consolidated affiliated entities.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group elimination.

	Nanyang Cijan		Jinan Baofei		Xishan Education	
	31.12.2018	31.12.2017	**31.12.2018**	31.12.2017	**31.12.2018**	31.12.2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current assets	**1,076,365**	951,872	**82,963**	38,796	**267,229**	234,192
Non-current assets	**811,792**	768,426	**139,228**	152,116	**511,494**	602,290
Current liabilities	**1,434,216**	1,283,065	**54,620**	35,228	**269,711**	299,866
Non-current liabilities	**48,848**	47,201	**21,869**	25,711	**241,262**	257,586
Equity attributable to owners of the Company	**295,115**	273,863	**78,826**	68,532	**156,098**	162,674
Non-controlling interests	**109,978**	116,169	**66,876**	61,441	**111,652**	116,356

51. DETAILS OF NON-WHOLLY-OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS *(Continued)*

	Nanyang Cijan Year ended 31 December		Jinan Baofei Year ended 31 December		Xishan Education Year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue	**1,353,866**	1,530,210	**71,240**	63,721	**179,604**	153,628
Profit (loss) for the year	**36,706**	2,336	**15,728**	10,523	**(11,280)**	(2,604)
Profit (loss) attributable to						
– owners of the Company	**27,142**	4,042	**8,021**	5,366	**(6,576)**	(1,518)
– non-controlling interests	**9,564**	(1,706)	**7,707**	5,157	**(4,704)**	(1,086)
Other comprehensive expense attributable to						
– owners of the Company	**–**	(324)	**–**	–	**–**	–
– non-controlling interests	**–**	(252)	**–**	–	**–**	–
Total comprehensive income (expenses) attributable to						
– owners of the Company	**27,142**	3,718	**8,021**	5,366	**(6,576)**	(1,518)
– non-controlling interests	**9,564**	(1,958)	**7,707**	5,157	**(4,704)**	(1,086)

52. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 19 October 2011, the Company approved and adopted a share option scheme (the "**Scheme**") which will remain in force for a period of 10 years from the date of its adoption. Details of the Scheme are set out in section titled 'Share Option Scheme' in the annual report for the year ended 31 December 2011.

For the years ended 31 December 2018 and 2017, no share options were granted under the Scheme by the Company. In addition, as at 31 December 2018 and 2017, no share options under the Scheme were outstanding.

53. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Amounts due to joint ventures RMB'000	Borrowings RMB'000	Convertible bond including embedded derivative component RMB'000	Amount due to an associate RMB'000	Other payables RMB'000	Long-term payables RMB'000	Total RMB'000
At 1 January 2017	198,270	1,513,960	–	2,197	50,000	24,860	1,789,287
Financing cash flows	53,270	1,393,477	638,583	228	28,454	–	2,114,012
Non-cash changes							
Finance cost recognised *(Note 11)*	–	122,383	3,358	–	–	2,636	128,377
Recognition of transaction cost payable relating to Convertible Bonds *(Note 32)*	–	–	–	–	10,031	–	10,031
Recognition of embedded derivative components of Convertible Bond	–	–	6,945	–	–	–	6,945
Offsetting arrangement	(148,270)	(19,666)	–	–	–	–	(167,936)
Exchange realignment	–	(48,686)	(7,792)	–	–	–	(56,478)
At 31 December 2017	103,270	2,961,468	641,094	2,425	88,485	27,496	3,824,238
Financing cash flows	(26,221)	(81,205)	(47,353)	74	41,954	(5,556)	(118,307)
Non-cash changes							
Finance cost recognised *(Note 11)*	–	165,229	69,211	–	4	1,146	235,590
Transfer *(Note 49b)*	–	–	–	–	(38,454)	–	(38,454)
Arising from business acquisition	–	12,980	–	–	–	–	12,980
Fair value change of embedded derivative component of Convertible Bond	–	–	5,865	–	–	–	5,865
Offsetting arrangement#	–	(39,666)	–	–	(40,000)	–	(79,666)
Exchange realignment	–	32,582	31,974	–	–	–	64,556
At 31 December 2018	77,049	3,051,388	700,791	2,499	51,989	23,086	3,906,802

Being balance set off as disclosed in Notes 34 and 49.

54. FINANCIAL INFORMATION OF THE COMPANY

	31.12.2018 RMB'000	31.12.2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	1,143	2,867
Interests in subsidiaries	1,068,015	814,968
Interests in joint ventures	298,815	–
AFS investments	–	176,640
Amount due from subsidiaries *(Note a)*	2,664,452	1,965,975
Deferred tax assets	–	1,522
	4,032,425	2,961,972
CURRENT ASSETS		
Financial assets measured at FVTPL	1,680,648	1,899,597
Trade and other receivables	16,118	93,137
Loan and interest receivables	466,508	–
Security account balances	17,275	–
Restricted bank balances	–	4,211
Bank balances and cash	5,821	276,833
	2,186,370	2,273,778
TOTAL ASSETS	6,218,795	5,235,750
CURRENT LIABILITIES		
Amount due to subsidiaries	23,690	3,847
Trade and other payables	74,135	43,537
Borrowings – due within one year	1,204,170	671,994
Convertible bonds	687,418	–
Embedded derivative components of convertible bonds	13,373	–
Amount due to joint ventures	11,199	–
	2,013,985	719,378
TOTAL ASSETS LESS CURRENT LIABILITIES	4,204,810	4,516,372

54. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

	31.12.2018 RMB'000	31.12.2017 RMB'000
NON-CURRENT LIABILITIES		
Borrowings – due after one year	**673,646**	582,629
Convertible bonds	**–**	634,149
Embedded derivative components of convertible bonds	**–**	6,947
Deferred tax liabilities	**–**	16,700
	673,646	1,240,425
NET ASSETS	**3,531,164**	3,275,947
OWNER'S EQUITY		
Share capital	**84,283**	80,096
Reserves *(Note b)*	**3,446,881**	3,195,851
TOTAL OWNER'S EQUITY	**3,531,164**	3,275,947

54. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Notes:

a. The balances are non-trade related, interest-free, unsecured and repayable on demand.

b. Details of the changes in the Company's individual components of equity during the year are set out as below:

	Share premium RMB'000	Translation reserve RMB'000	AFS reserve RMB'000	Retained earnings (Accumulated losses) RMB'000	Total RMB'000
At 1 January 2017	2,426,403	64,051	–	51,325	2,541,779
Profit for the year	–	–	–	26,303	26,303
Fair value change of AFS investments	–	–	9,811	–	9,811
Income tax relating to fair value change of AFS investments	–	–	(1,619)	–	(1,619)
Exchange difference arising on translation to presentation currency	–	(191,663)	–	–	(191,663)
Total comprehensive (expense) income for the year	–	(191,663)	8,192	26,303	(157,168)
Issue of new shares	811,240	–	–	–	811,240
At 31 December 2017	3,237,643	(127,612)	8,192	77,628	3,195,851
Loss for the year	–	–	–	(655,597)	(655,597)
Exchange difference arising on translation to presentation currency	–	107,790	–	–	107,790
Total comprehensive income (expense) for the year	–	107,790	–	(655,597)	(547,807)
Transfer	–	–	(8,192)	8,192	–
Issue of new shares	798,837	–	–	–	798,837
At 31 December 2018	4,036,480	(19,822)	–	(569,777)	3,446,881

55. EVENT AFTER REPORTING PERIOD

On 29 March 2019, an independent third party established in the PRC ("**the Purchaser**"), the subsidiary of the Company and Tiantai Culture entered into the agreement, pursuant to which the Purchaser agreed to purchase and the subsidiary of the Company agreed to sell Tiantai Culture at an aggregate consideration of RMB202 million. Upon completion of the transaction, Tiantai Culture will no longer be a subsidiary of the Company.

GLOSSARY

In this annual report (other than the Independent Auditor's Report and the consolidated financial statements), unless the context otherwise requires, the following expressions shall have the meanings set out below:

"2018 Financial Year"	the financial year ended 31 December 2018
"AGM"	the annual general meeting of the Company
"Articles of Association"	the articles of association of the Company, as amended from time to time
"AUD"	Australian dollars, the lawful currency of Australia
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"Bojun Education"	Bojun Education Company Limited, a company incorporated in the Cayman Islands with limited liability, whose issued Shares are listed on the Main Board of the Stock Exchange with stock code of 1758
"BVI"	the British Virgin Islands
"Chairman"	the chairman of the Board
"China" or "PRC"	the People's Republic of China which for the purpose of this annual report, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Chuang Yue"	Hongkong Chuang Yue Co., Limited, a company incorporated in Hong Kong with limited liability, is a substantial Shareholder and is indirectly wholly-owned by Mr. Tang Mingyang
"Co-CEO(s)" or "Co-Chief Executive Officer(s)"	the co-chief executive officer(s) of the Company
"Company" or "CFCG"	China First Capital Group Limited, a company incorporated in the Cayman Islands with limited liability, whose issued Shares are listed on the Main Board of the Stock Exchange with stock code of 1269
"Company Secretary"	the company secretary of the Company
"Corporate Communications"	the documents issued or to be issued by the Company for the information or action of holders of any of the Company's securities as defined in Rule 1.01 of the Listing Rules
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"CSRC"	the China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"EBITDA"	earnings before interest, taxes, depreciation and amortisation
"Edukeys Group"	Xinjiang Edukeys and its subsidiaries
"EGM"	the extraordinary general meeting of the Company
"FC Asset Management"	First Capital Asset Management Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company

"FC Financial Group"	First Capital Financial Group Limited, a company incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company
"FC Fund"	First Capital Fund Management Company Limited* (首控基金管理有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
"FC International Finance"	First Capital International Finance Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"FC Securities"	First Capital Securities Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"FVTPL"	fair value through profit or loss
"Group"	the Company and its subsidiaries
"HK" or "Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of the Company
"Independent Third Party(ies)"	third party(ies) who is/are independent of and not connected with the Company and its connected persons and not a connected person of the Company
"INED(s)"	the independent non-executive Director(s)
"IPO"	initial public offering
"K-12 Education"	a collective term for primary education, namely education from kindergarten through twelfth grade, including kindergarten, elementary school, middle school and high school
"Korea"	the Republic of Korea
"Latest Practicable Date"	16 April 2019, the latest practicable date prior to the printing of this annual report
"Listing Date"	23 November 2011
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Company
"R&D"	Research and development
"Remuneration Committee"	the remuneration committee of the Company
"Risk Management Committee"	the risk management committee of the Company

"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGD"	Singapore dollars, the lawful currency of Singapore
"SGX"	The Singapore Stock Exchange
"SJW International"	SJW International Co., Ltd., a joint stock company incorporated in Korea and a joint venture of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Share Option Scheme"	the share option scheme adopted by the Company pursuant to the ordinary resolution of the Shareholders passed on 19 October 2011
"Share(s)"	(i) the ordinary share(s) of HK$0.10 each in the issued and unissued share capital of the Company prior to the Share Subdivision taking effect, or (ii) the subdivided ordinary share(s) of HK$0.02 each in the issued and unissued share capital of the Company with effect from 28 February 2017, as the case may be
"Share Subdivision"	the subdivision of each of the issued and unissued shares of HK$0.10 each in the share capital of the Company into five shares of HK$0.02 each with effect from 28 February 2017
"Singapore"	the Republic of Singapore
"Stirling Coleman"	Stirling Coleman Capital Limited, a company incorporated in Singapore with limited liability and an indirect wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of the Company
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States" or "US"	the United States of America
"US$"	United States dollars, the lawful currency of the United States
"Wealth Max"	Wealth Max Holdings Limited, a company incorporated in the BVI with limited liability, is a substantial Shareholder and is wholly-owned by Dr. Wilson Sea, the Chairman and an executive Director
"Xinjiang Edukeys"	Xinjiang Edukeys International Education Services Co., Ltd.* (新疆中際育才教育諮詢有限公司), a company incorporated in the PRC with Limited Liability and an indirect wholly-owned subsidiary of the Company
"Xishan Schools"	collectively, the Fuqing Xishan School* (福清西山學校), Fuqing Xishan Vocational and Technical School* (福清西山職業技術學校), Jiangxi Xishan School* (江西省西山學校) and Xishan Education Group* (西山教育集團)
"%"	per cent

* *For identification purpose only*

CFCG

中國首控集團有限公司

China First Capital Group Limited