希望教育集團有限公司
Hope Education Group Co., Ltd.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1765







Gratefulness Openness Preciseness Responsibility

ANNUAL REPORT 2018

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Xu Changjun *(Chairman)*
Mr. Wang Huiwu *(Chief Executive Office)*
Mr. Li Tao

Non-executive Directors

Mr. Wang Degen
Mr. Lu Zhichao
Mr. Tang Jianyuan

Independent Non-executive Directors

Mr. Zhang Jin
Mr. Chen Yunhua
Dr. Gao Hao

Audit Committee

Mr. Zhang Jin *(Chairman)*
Mr. Lu Zhichao
Mr. Tang Jianyuan
Mr. Chen Yunhua
Dr. Gao Hao

Nomination and Remuneration Committee

Mr. Chen Yunhua *(Chairman)*
Mr. Wang Huiwu
Dr. Gao Hao

Strategy and Development Committee

Mr. Wang Huiwu *(Chairman)*
Mr. Xu Changjun
Mr. Wang Degen
Mr. Lu Zhichao
Mr. Li Tao

AUTHORIZED REPRESENTATIVES

Mr. Li Tao
Ms. Leung Wing Han Sharon

JOINT COMPANY SECRETARIES

Mr. Huang Zhongcai
Ms. Leung Wing Han Sharon

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

5/F, Administrative Building
Sichuan TOP IT Vocational Institute
2000 Xi Qu Avenue, Pidu District
Chengdu
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

Davis Polk & Wardwell
18th Floor
The Hong Kong Club Building
3A Chater Road
Hong Kong

CORPORATE INFORMATION

AUDITOR

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

COMPLIANCE ADVISOR

Guotai Junan Capital Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China
China Minsheng Bank
Chengdu Rural Commercial Bank

COMPANY'S WEBSITE

www.hopeedu.com

STOCK CODE

1765

OUR SCHOOLS


Sichuan Tianyi College
Southwest Jiaotong University Hope College
Jinci College of Shanxi Medical University
Sichuan TOP IT Vocational Institute
Shanxi
Sichuan
Guizhou
Sichuan Vocational College of Culture & Communication
Sichuan Hope Automotive Technical College
Sichuan Hope Automotive Vocational College
Business College of Guizhou University of Finance and Economics
Guizhou Vocational Institute of Technology
Provincial Capital
School

I hereby represent the Board of Directors to present to you the annual report of the Company as of 31 December 2018.

OVERVIEW OF THE GROUP

2018 is a very important year for the development of the Group. The Group successfully listed on the Main Board of the Hong Kong Stock Exchange on 3 August 2018. On behalf of the Board, I would like to thank the professionals and employees who have worked hard for the successful listing of the Group. The Listing, which opened up a new journey of capitalization and internationalization, has enhanced our financial position, raised sufficient funds for our future development, and provided us with good development opportunities and platforms.

As of 31 December 2018, the Group had a total of nine schools, including three independent colleges, five higher vocational colleges and one technical college. The Group is one of the largest private education groups in China with 86,033 students.

After Listing, the Group was selected as a constituent stock of MSCI China Small Cap Index on 30 November 2018, and selected as a constituent stock of the index series such as Hang Seng Composite Index by the Hang Seng Indexes Company Limited on 11 March 2019, and was included in the Hong Kong Stock Connect list under the Shenzhen-Hong Kong Stock Connect on the same day. The inclusion demonstrates the recognition of the Company's business and results by the capital markets, which is expected to extend the shareholder base and increase the liquidity of the shares of the Company, so as to facilitate the enhancement of investment value of the Company and the Company's reputation in the capital market.

CHAIRMAN'S STATEMENT

RESULTS AND DIVIDEND

We delivered a good performance in 2018. Our revenue increased by 37% from RMB752.43 million in 2017 to RMB1,029.52 million. Gross profit increased by 30% from RMB360.03 million in 2017 to RMB467.24 million. Core net profit increased by 43% from RMB219.50 million in 2017 to RMB314.80 million. As of 31 December 2018, our bank balances and cash amounted to RMB3,038.91 million. The Board has recommended the payment of a final dividend of RMB0.015 (equivalent to HK$0.018) per share for the year ended 31 December 2018, subject to the approval of the Shareholders at the 2018 AGM.

OPERATING HIGHLIGHT

The Group and the management team are always committed in expanding the scale of existing schools and continuously creating value for shareholders. Within the first month after listing, the number of freshmen registered in the Group's colleges exceeded 30,000, reaching 31,025, representing a year-on-year increase of 42.99%. In the 2018/2019 school year, the student enrollment in our schools was 86,033, representing an increase of 13.65% as compared with the 2017/2018 school year. Among them, Business College of Guizhou University of Finance and Economics and Sichuan Vocational College of Cuture & Communication expanded their student base to 15,549 and 8,912 as of 31 December 2018, representing an increase of 347% and 191% respectively as compared to 2014 when we made aquisition. All these results demonstrate the Group's excellent institutional post-M&A governance enhancement capabilities.

After the Listing of the Group, in accordance with the corporate governance requirements of Hong Kong Stock Exchange, we continuously optimized the management model of the Group, enabled the sharing of teaching resources, employment resources, procurement resources and student recruitment experience among schools, and effectively controlled operating costs. In 2018, each college of the Group worked closely to actively apply for majors with high social needs and promising job prospects. National and provincial approved majors such as the undergraduate major of stomatology at Jinci College of Shanxi Medical University, majors of rehabilitative technology and Chinese pharmacy at Sichuan Tianyi College, majors of nursing and preschool education at Sichuan Hope Automotive Vocational College, and major of music and arts at Sichuan Vocational College of Culture & Communication have been successively approved. At the same time, the Group focused on cultivating applied and skilled talents, increasing the proportion of training during teaching in correspondingly equipped training rooms, thereby improving the competitiveness of graduates in seeking employment. In 2018, the number of graduates from colleges of the Group amounted to 19,488, with the average employment rate of the colleges of the Group reaching employment rate of 92.19%, representing an increase of over 2% as compared to the previous year.

The Company continued to promote its external expansion work. While investigating the new acquisition targets, the Group also attached great importance towards the institution of new colleges. In 2018, the management of the Group carefully analyzed policies and the market and strategically commenced the construction of new colleges. The Group successively signed project investment agreements with the government of Xinfeng County in Guangdong Province, the government of Zhong County in Chongqing and the government of Baiyin District in Gansu province to establish one new vocational college in each local area.

DEVELOPMENT STRATEGY

At present, China has entered a period of economic transformation with industry transforming from low-end manufacturing to medium-to-high-end development, resulting a gap in industrial demand and talent supply. The Group aspires to provide more Chinese students with access to quality higher education and to provide more specialized skill talents for the national industrial transformation. To achieve this goal, we will focus on the higher education industry and adhere to two major development principles: first, improve the quality of education in existing schools, expand enrollment, optimize professional settings, promote the integration of production and education, enhance students'vocational skills and increase quality of talent cultivation; second, make full use of the Company's more than 10 years of schooling and M&A experience, seek more opportunities for industry integration, enlarge and strengthen the business scope of Hope Education, and cultivate more high-quality technical personnel required in the economic innovation transformation and upgrading process for the society.

"It takes ten years to grow trees but a hundred years to rear people". Looking to the future, we are deeply aware of the great historical responsibility we have shouldered! We will always adhere to the philosophy of "creating a better life for students, providing high-quality technical personnel for the society, to create greater value for shareholders", be down-to-earth diligent and strive to become a well-known private higher education service provider in China and the world.

APPRECIATION

On behalf of the Board, I would like to extend my heartfelt gratitude to all of our employees and management team for their dedication to excellence and valuable contributions. I also express my gratitude to all of our shareholders and stakeholders for their trust and support to the Group. Looking forward, we will continue expanding our scale of operation through our high-quality M&A and better meet the demands of students, parents and the society by enhancing talent cultivation quality through our first-class education and teaching.

Hope Education Group Co., Ltd.
Chairman
Xu Changjun
Hong Kong, 22 March 2019

FINANCIAL AND BUSINESS SUMMARY

SUMMARY OF FINANCIAL REPORT

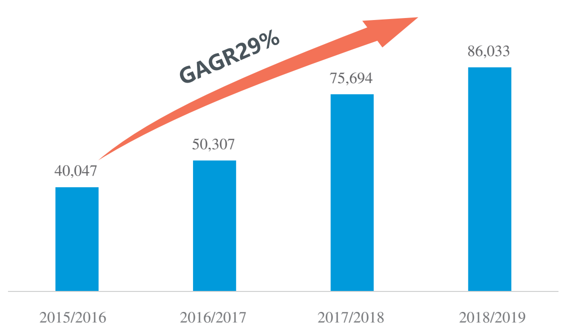
A summary of the audited results and of the assets and liabilities of the Group for the last four financial years is set out below:

	Year ended 31 December			
	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	486,714	614,399	752,434	**1,029,523**
Cost of sales	(240,190)	(304,682)	(392,405)	**(562,286)**
Gross profit	246,524	309,717	360,029	**467,237**
Profit before tax	69,090	159,277	229,425	**159,496**
Profit for the year	65,398	154,741	209,656	**167,337**

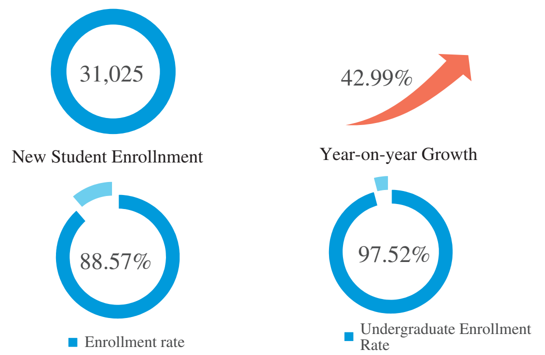
	As at 31 December			
	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	2,266,586	2,950,956	4,550,883	**5,119,246**
Current assets	1,525,224	1,650,868	1,043,889	**3,171,948**
Current liabilities	2,062,538	2,455,299	2,098,061	**1,851,337**
Net current assets/(liabilities)	(537,314)	(804,431)	(1,054,172)	**1,320,611**
Total assets less current liabilities	1,729,272	2,146,525	3,496,711	**6,439,857**
Non-current liabilities	1,479,330	1,651,551	2,817,323	**2,279,705**
Net assets	249,942	494,974	679,388	**4,160,152**
Total equity	249,942	494,974	679,388	**4,160,152**

Financial and Business summary:

Enrollment Number

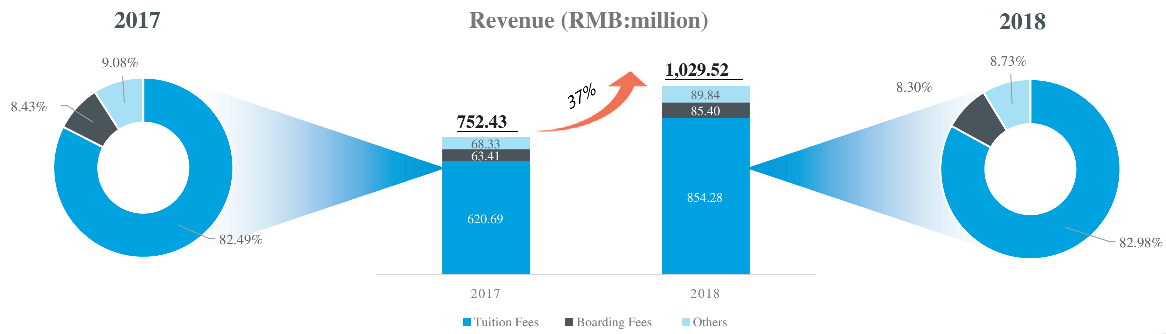


Enrollment Result in 2018



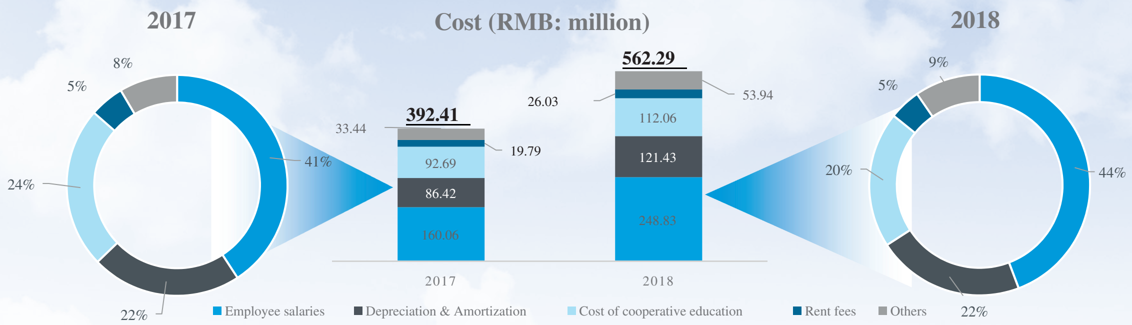
The number of students enrolled in 2018 increased by **2.15 times** compared with the number in2015：Firstly,the annual enrollment scale continued growing; Secondly, the revenue of acquired institutions.

The new student enrollment of the Group's schools was 31,025 in 2018, increasing by 42.99% from the previous year.
The enrollment rate was 88.57%,increasing 4.63% from the previous year, and the undergraduate enrollment rate was over 97.52%.

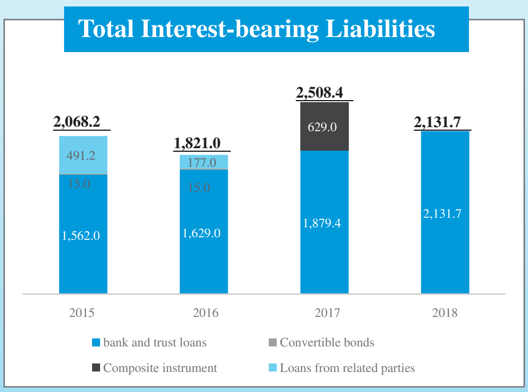


Tuition fees contributed **82.98%** of total revenue, increasing by **38%**; the tuition fees of original colleges increased revenue by **19%**;
The newly acquired TOP Institute contributed **RMB 116.24 million** in tuition fees, increasing revenue by **19%**.

FINANCIAL AND BUSINESS SUMMARY



- The cost increased **by 43%** from **RMB 392.41 million** in 2017 to **RMB 562.29 million**in 2018.
- Employee salaries accounted for **44%** of the total cost , increasing **55%** from the previous year to **RMB 248.83 million** in 2018, the main reason is that the acquisition of TOP Institute increased by **RMB 38.40 million** (with growth rate of **24%**). In order to improve the teaching quality, the original colleges optimized the structure of teachers and adjusted the salary system, with an increase of **31%**.
- Cooperative education cost accounted for **20%** of the total cost,increasing by **21%** from the previous year to **RMB 112.06 million**, mainly because of the increase in tuition of cooperative education institutions (3 independent colleges).



1.After the listing, the company optimized the financing structure and only retained the bank and trust loans with relatively low financing costs.
2.The financing scale,with sufficient development funds remaining,has decreased significantly.

BUSINESS REVIEW

Overview

The Group focuses on higher education. As of 31 December 2018, the number of institutions of higher education owned by the Group ranks first among similar listed companies. The Group owns and operates eight higher education schools, including schools founded by the Group, namely, Southwest Jiaotong University Hope College, Sichuan Hope Automotive Vocational College and Guizhou Vocational Institute of Technology, and schools acquired by the Group, namely, Sichuan Tianyi College, Sichuan Vocational College of Culture & Communication, Business College of Guizhou University of Finance and Economics, Jinci College of Shanxi Medical University and Sichuan TOP IT Vocational Institute. We also provide self-study examination services and adult education services. In addition to the above-mentioned eight schools, the Group operates Sichuan Hope Automotive Technical College to provide technical education services.

Student enrollments

In order to be admitted for higher education, a student must pass and attain certain scores in China's National Higher Education Entrance Examination or the particular entrance exams organized by the provincial education authorities. Being institutions providing higher education services, the respective education authorities will specify a quota for the number of new students that each of the Group's school may admit each year.

In 2018, the total student enrollment of our schools is 31,025, representing a year-on-year increase of 42.99% (Sichuan TOP IT Vocational Institute was the school acquired by the Group in December 2017. The total student enrollment in 2018 includes the student enrollment of Sichuan TOP IT Vocational Institute in 2018 being 4,513).

In 2018, registration rate of new students in our schools reached 88.57%, 4.63% higher than last year; among which the undergraduate registration rate reached above 97.52%, and the registration rate of Jinci College of Shanxi Medical University reached 99.04%.

As of 31 December 2018, the number of students enrolled in our schools are 86,033, increased by 10,339 as compared with that as of 31 December 2017, representing an increase of 14%, taking a leading position in terms of endogenous growth among peer listed companies.

Employees and teaching staff

The Group believes that the quality of education is closely related to the quality of teachers. The Group mainly seeks to employ (i) highly qualified teachers with experience and knowledge in theory and practice; (ii) teachers with work experience in relevant industries, such as senior accountants, engineers and highly skilled personnel; and (iii) teachers with relevant professional qualifications. During the recruitment, the Group also placed special emphasis on strong communication skills and enthusiasm for teaching. As of 31 December 2018, the Group had a total of 5,357 faculty members.

Our schools continues to focus on the optimization of the teacher structure, as well as the improvement in ability. and career development of teachers. In 2018, a total of 9 doctors and 391 masters were recruited. Our five schools in Sichuan jointly conducted the evaluation of teachers' middle and senior titles. There were a total of 297 teachers applying for medium title or above with a final result of two seniors, 27 advanced and 227 medium level. In addition, our teachers won numerous awards in 2018. For example, Dean Chen Yemei of Southwest Jiaotong University Hope College won the title of Top Ten Excellent Education Workers in Sichuan Province, and Liu Xu, a teacher of Sichuan Hope Automotive Vocational College, was awarded the title of Excellent Teacher of Sichuan Province.

Scientific Research

In 2018, the scientific research capabilities of our schools have steadily increased, as mainly reflected in the following aspects: (i) 274 projects were approved with a year-on-year increase of 104%, of which 33 projects were categorized as provincial and ministerial projects; (ii) published 512 papers, 50 education materials or monographs; and (iii) obtained 11 patent licensings, 47 patent certificates with a year-on-year increase of more than six times.

Major Construction

Our schools attach importance to professional construction, actively applying for provincial and national approved majors with high social needs and good employment prospects, and strengthening the teaching team and the construction of training rooms for new majors. In 2018, provincial and national approved majors such as the undergraduate major of stomatology at Jinci College of Shanxi Medical University, majors of rehabilitative technology and Chinese pharmacy at Sichuan Tianyi College, majors of mold design and manufacturing, nursing, preschool education and child development and health management at Sichuan Hope Automotive Vocational College, and major of e-sports and management at Sichuan Vocational College of Culture & Communication have been successively approved.

Awards

Teachers and students of our schools participated in various competitions at or above the provincial level, and won about 600 awards, representing a year-on-year increase of 70%. Among them, the students of Sichuan Vocational College of Culture & Communication won the special prize in the Innovation, Benefit and Venture Competition in National Vocational Schools (全國職業學校創新創效創業大賽), and the students of Southwest Jiaotong University Hope College won the second prize in the National University Students Mathematic Modeling Contest. The Teaching Reform Project "Theoretical and Practical Exploration of "Applied" Talent Cultivation in Business College" of Business College of Guizhou University of Finance and Economics won the 9th Higher Education Provincial Teaching Achievement Award of Guizhou Province (貴州省第九屆高等教育省級教學成果獎). A total of 155 students from five institutions in Sichuan Province were awarded the honorary title of "2018 Excellent University Graduates in Sichuan Province (2018屆四川省優秀大學畢業生)" by the Education Department of Sichuan Province; 38 students were selected as "2018 Excellent University Graduates" by the Group.

Application-oriented Education

In line with our commitment to students, we endeavor to enable students to become professionals possessing talent, knowledge and skills desired in employment market. We establish majors and curricula with a focus on applied technologies based on the demand of the employment market and make job-oriented training a key part of our courses. We have close cooperation with enterprises and institutions in various areas, for example, Southwest Jiaotong University Hope College signed a school-enterprise cooperation agreement with China Railway Group, Chengdu Metro Group, JD.com and other enterprises; Jinci College of Shanxi Medical University established good cooperation relationship with hospitals in Shanxi Province, such as Affiliated Hospital of Shanxi Medical University and Shanxi Province People's Hospital; Sichuan TOP IT Vocational Institute established long-term cooperative relationships with Baidu Group, BOE Group and Lenovo Group; Sichuan Tianyi College signed a school-enterprise cooperation agreement with Shanghai Baoye Group; Sichuan Hope Automotive Vocational College carried out school-enterprise cooperation and ordered training classes with large and medium-sized enterprises such as Mercedes-Benz, BMW, Hyundai and BYD Auto, all of above have enhanced our application-oriented teaching quality, enlarged the opportunities for students' internship training and improved our graduates' competitiveness in the employment market.

Employment Services

In 2018, the Group held the 5th "Hope Career Cup" Career Planning Competition (第五屆"希望生涯杯"職業規劃大賽) with more than 2,000 students from various institutions participated in intra-school competition and the Group's finals. The Group organized students to participate in the double-venture competitions, who won one special prize and ten third prizes; and the Group organized about 500 Reciprocal Selection Meetings and special job fairs, offering about 30,000 job positions for students. Our schools have cooperated with eight universities in seven countries to carry out talent training cooperation, and introduced a number of overseas employment projects such as "Japanese nurses" and "German dual-track nurse training". As of 31 December 2018, the average employment rate of the colleges of the Group reached 92.19%, representing an increase of approximately 2% as compared to the average employment rate of 90.98% as of 31 December 2017.

As a private higher education group committed in applied science, the Group takes the employment rate of graduates as an important criterion of teaching quality. The Group believes leading employment rate in the industry helps to enchance our reputation and attracts talented high school graduates, and is also conducive for the acquisition of China's other private higher education schools by the Group.

Our Schools

As of 31 December 2018, we held three independent colleges, five junior colleges and one technical college. The table below sets out some details of our schools.

	School	Establishment/ acquisition	Year of establishment/ acquisition	Description
	Independent Colleges			
1	Southwest Jiaotong University Hope College	Establishment	July 2009	The first university established by the Group, with a leading position in rail transit among private universities nationwide
2	Business College of Guizhou University of Finance and Economics	Acquisition	April 2014	The largest independent college in Guizhou Province

	School	Establishment/ acquisition	Year of establishment/ acquisition	Description
3	Jinci College of Shanxi Medical University	Acquisition	April 2014	One of the twelve private undergraduate medical schools in China
	Junior Colleges			
4	Sichuan Tianyi College	Acquisition	September 2011	One of the first batch of private schools in China and the first private school in Southwest China approved by the MOE
5	Sichuan Hope Automotive Vocational College	Establishment	June 2013	The first private automotive college in Sichuan Province
6	Sichuan Vocational College of Culture & Communication	Acquisition	March 2014	Private institution with the largest professional scale of preschool education in Sichuan Province
7	Guizhou Vocational Institute of Technology	Establishment	June 2016	The university using the shortest time from construction, application to enrollment in the Group
8	Sichuan TOP IT Vocational Institute	Acquisition	December 2017	One of the first batch of national demonstration software vocational and technical colleges; the national urgently-needed skilled talent training base, the national high-skilled personnel training base for electronic information industry, and the youth technician cultivation base for electronic information industry in Sichuan Province
	Technical College			
9	Sichuan Hope Automotive Technical College	Establishment	July 2016	The first automotive technical college of Sichuan Province

New Schools under Planning

Guizhou College

On 8 March 2019, Hope Education (as purchaser) and Tequ Education (as vendor) entered into an acquisition agreement, pursuant to which Hope Education conditionally agreed to acquire the entire interests in Chengdu Maysunshine Education Management Co., Ltd. from Tequ Education at a consideration of RMB70,000,000 (Approximately HK$82,353,000). Further information can be found in the Company's announcement on 8 March 2019.

Gansu College

In November 2018, Hope Education, People's Government of Baiyin District, Baiyin City and Baiyin Municipal Economic Cooperation Bureau entered into the Project Investment Agreement in relation to Gansu College, pursuant to which the Group intends to establish Gansu College in Gansu Province, the PRC. Gansu College will be a higher education institution committed to cultivating talents with professional skills. As of 31 December 2018, the Group is working closely with the local government to actively carry out preliminary work on construction projects.

Guangdong and Chongqing Colleges

In May and November 2018, the Group and the People's Government of Xinfeng County in Guangdaong Province and the People's Government of Zhong County in Chongqing entered into project investment agreements in relation to the construction of the new colleges successively. As of 31 December 2018, the Group is negotiating with the local governments for project promotion.

PRINCIPAL RISKS AND UNCERTAINTIES

For details of principal risks and uncertainties and our measures to mitigate these risks and uncertainties, please refer to the sections headed "Report of Directors - Principal Risks and Uncertainties" and "Corporate Governance Report - Risk Management and Internal Controls" in this annual report.

PROSPECTS

Positioning

As the leading private higher education group in China focusing on application-oriented education, the Group will continue to expand our school networks and strengthen our leading market position, aiming at providing more students with access to higher education. Meanwhile, the Group will further optimize our centralized management model as well as continue to improve our schools' teaching quality and competitiveness. The schools of the Group will further strengthen the application-oriented skill education, deepen the school-enterprise collaboration and improve student employment rate.

Our Business Strategies

1. Continue to expand the Group's school network and strengthen the Group's leading market position

   We will continue the successful M&A experience in the past 10 years to select high-quality targets. The Group will seize the major opportunities in the development of vocational education supported by the state, leverage on our experience in the establishment of higher education institution and build higher vocational colleges with innovative models in areas with low enrollment in higher education and strong demand for talents. Moreover, we will increase the market share of the Group in the Chinese private higher education industry. We will steadily explore overseas education and establish schools mainly in the One Belt And One Road region to achieve interactive and collaborative development between universities held by the Group home and abroad.

2. Continue to increase the number of students enrolled at our schools and increase the utilization rate, capacity and education scale

   We will maintain the year-by-year trend of increasing enrollment in three independent colleges of the Group, expand the scale of undergraduate students, seize the increased enrollment opportunities of higher vocational expansion, apply for teaching majors with high social demand and good employment prospects and expand the student enrollment in five higher vocational colleges and one technical college.

3. Further enhance our centralized management model, continue to improve our schools' teaching quality and competitiveness

   The Group plans to further enhance our centralized management, accomplish complementary and balanced major establishment among its schools and share teaching resources and student recruiting experience and job placement resources to achieve synergy among its schools. The Group's education management committee will further guide its schools in creating characteristic specialty, setting quality courses to attract more students and organizing teaching skill training and competitions in each school to increase teachers' quality and the overall teaching level. In addition, the Group will make further investment in the promotion of the "Intelligent Campus" project in order to further enhance the management efficiency of the Group.

   The Group hopes that the graduates would not only master specialized knowledge, but also be equipped with necessary practical skills. In order to achieve this goal, we actively promote the talent training mode of "academic qualifications plus skill certificates", aiming at increasing the training of various practical skills to increase the operating income while meeting the diversified development needs of students. The Group also plans to further expand its school-enterprise collaboration network and establish more simulation training bases or facilities to provide students with extensive training courses and training opportunities.

4. Continue to attract, encourage and retain high-quality teachers, and enhance the support for the career development of teachers

   The quality of the Group's education services is highly dependent on the quality of the teachers. The Group plans to continue to attract, encourage and retain high-quality teachers to maintain an excellent team of teachers. The Group also plans to employ well-known technical experts, experienced business managers and other highly-skilled persons as full-time or part-time teaching staff at its schools. The Group will strengthen the training of teachers and management teams of its schools and continue to carry out the evaluation of profession title, providing a new space for teacher's professional growth. The Group plans to continue to provide the Group's teachers with competitive compensation and benefits to attract and retain qualified teachers. Under the Group's 2018 Pre-IPO Share Option Scheme, the Group grants share options to teachers who have made significant contributions to its education services as a reward to attract and retain outstanding teachers to serve at our Group. We will continue to implement incentive programs for outstanding teachers in the future.

Conclusion

Looking forward, the Group will abide by our fundamental educational philosophy "happy learning, happy living and happy working". The Group will adhere to its core values of gratefulness, openness, preciseness and responsibility and focus on providing high-quality higher education to foster talent with competitive capabilities and practical skills to contribute to social and economic development.

FINANCIAL REVIEW

Revenue

Our revenue increased by 37% from RMB752.43 million for the year ended 31 December 2017 to RMB1,029.52 million for the year ended 31 December 2018. The increase was primarily due to the increase in tuition fees from RMB620.69 million for the year ended 31 December 2017 to RMB854.28 million for the year ended 31 December 2018 with a year-on-year increase of 38%, primarily because of the: (i) increase in the number of students of the Group's original schools; and (ii) revenue from the acquisition of Sichuan TOP IT Vocational Institute by the Group in December 2017.

Cost of Sales

Cost of sales increased by 43% from RMB392.41 million for the year ended 31 December 2017 to RMB562.29 million for the year ended 31 December 2018. The increase was primarily due to an increase in the number of full-time teachers, the adjustment of remuneration system, and an increase in depreciation and amortization expenses and management expenses for cooperative education, which was in line with the increase in the number of students due to the expansion of school scale.

Gross Profit and Gross Profit Margin

Our gross profit increased by 30% from RMB360.03 million for the year ended 31 December 2017 to RMB467.24 million for the year ended 31 December 2018, which was in line with the growth of the Group's business.

Our gross profit margin decreased from 48% for the year ended 31 December 2017 to 45% for the year ended 31 December 2018, primarily due to the following: (i) the preparation for the upgrade of Sichuan Tianyi College to undergraduate institution and the enhancement of teacher quality and fixed assets, resulting in the increase in labor costs and depreciation expenses greater than the increase in revenue, and (ii) the adjustment of remuneration system.

Other Income and Gains

Other income and gains increased by 55% from RMB136.38 million for the year ended 31 December 2017 to RMB211.51 million for the year ended 31 December 2018, which was mainly due to the increase in: (i) interest income, (ii) gain from disposal of a subsidiary, (iii) service income, (iv) gain from the fair value of the conversion right of the convertible bonds, (v) gain on exchange difference, net; and (vi) income-related government grants. The increase was partially offset by a significant decrease in gains from disposal of items of property, plant and equipment of RMB32.37 million for the year ended 31 December 2017 to RMB1.49 million for the year ended 31 December 2018, which was mainly due to the disposal of certain commercial properties of Business College of Guizhou University of Finance and Economics in 2017.

Selling and Distribution Expenses

Selling and distribution expenses decreased by 29% from RMB29.14 million for the year ended 31 December 2017 to RMB20.80 million for the year ended 31 December 2018, which was primarily due to marketing and advertising expenses decreasing by 54% from RMB18.21 million for the year ended 31 December 2017 to RMB8.39 million for the year ended 31 December 2018, which was primarily attributable to the increase in our education reputation resulting in a decrease in our advertising and marketing expenses.

Administrative Expenses

Administrative expenses increased by 201% from RMB88.93 million for the year ended 31 December 2017 to RMB267.45 million for the year ended 31 December 2018. The increase in administrative expenses for the year ended 31 December 2018 was primarily related to the listing expenses of RMB33.68 million and equity-settled share option expense of RMB122.35 million.

Other Expenses

Other expenses increased by 953% from RMB2.66 million for the year ended 31 December 2017 to RMB27.97 million for the year ended 31 December 2018. Such increase was mainly due to the increase of RMB23.12 million in land costs as a result of the liquidation of the commercial properties of Business College of Guizhou University of Finance and Economics.

Finance Costs

Finance costs increased by 39% from RMB144.51 million for the year ended 31 December 2017 to RMB201.17 million for the Period, primarily due to interest expenses on bank and other borrowings.

Profit before Tax

As a result of the foregoing, the Group's profit before income tax for the year ended 31 December 2018 amounting to RMB159.50 million, while the profit before income tax for the year ended 31 December 2017 amounting to RMB229.43 million, representing a year-on-year decrease of 30%.

Income Tax Credit/(Expense)

The Group's income tax expenses decreased from RMB19.77 million for the year ended 31 December 2017 to minus RMB7.84 million for the year ended 31 December 2018, which was mainly due to the fact that over provision of PRC land appreciation tax ("LAT") and income tax of RMB12.03 million was provided before the settlement of certain commercial properties disposed by Business College of Guizhou University of Finance and Economics in 2017.

Profit from Continuing Operations

As a result of the combined effects of the abovementioned revenues and costs, the Group recorded net profit from continuing operations of RMB167.34 million for the year ended 31 December 2018, representing a decrease of 20% from RMB209.66 million for the year ended 31 December 2017.

Core Net Profit

Core net profit (excluding listing expenses, equity-settled share option expenses and net gain on exchange differences) for the year ended 31 December 2018 increased by 43% to RMB314.80 million from RMB219.50 million for the year ended 31 December 2017.

	Year ended 31 December	
	2018	2017
	(in millions of RMB)	(in millions of RMB)
Profit from continuing operations for the Period	**167.34**	209.66
Add:		
Listing expenses	**33.68**	9.84
Equity-settled share option expenses	**122.35**	—
Less: Gain on exchange differances	**(8.57)**	—
Core net profit	**314.80**	219.50

Loans to Related Parties

As at 31 December 2017, Tequ Education was granted a loan of RMB545.69 million, bearing an interest rate of 8.5% per annum. All the loans have been repaid in full by Tequ Education in 2018.

CAPITAL EXPENDITURE

The capital expenditure of the Group consists of purchase or construction costs relating to property, equipment, prepaid land lease payments and other intangible assets. During the Period, the capital expenditure of the Group amounting to RMB434.67 million, which was mainly related to the expansion of the construction of Sichuan Tianyi College. The Group financed such capital expenditure primarily with cash generated from operations and bank loans.

Capital Commitments

The Group's capital commitments were primarily related to the acquisition of property and equipment. The following table sets forth a summary of our capital commitments as of the dates indicated:

	As of 31 December 2018 (in millions of RMB)	As of 31 December 2017 (in millions of RMB)
Contracted, but not provided for:		
Property, equipment and other intangible assets	**83.50**	173.44
	83.50	173.44

As of 31 December 2018, the Group did not have any significant capital commitments authorised but not contracted for.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had cash and cash equivalents of RMB3,038.91 million (31 December 2017: RMB181.33 million) and interest-bearing bank and other loans of approximately RMB2,131.73 million (31 December 2017: RMB1,879.45 million).

INDEBTEDNESS

Contingent Liabilities

As of 31 December 2018, the Group did not have any material contingent liabilities, guarantees or any significant litigations or claims pending or threatened against any member of the Group.

Net Debt to Equity Ratio

Net debt to equity ratio equals to total interest-bearing bank loans and other borrowings net of cash and cash equivalents at the end of the year divided by total equity at the end of the year. The Group's net debt to equity ratio decreased from 249.95% as at 31 December 2017 to -21.81% as at 31 December 2018, primarily due to the cash received from the issuance of shares in connection with the Listing.

Gearing Ratio

Gearing ratio equals to total debt divided by total assets as of 31 December 2018. Total debt includes all interest-bearing bank loans and other borrowings. Our gearing ratio decreased from 87.86% as at 31 December 2017 to 49.82% as at 31 December 2018, primarily due to the significant fund raised from the Listing, the repayment of part of interest-bearing bank borrowings and other borrowings, and the waiver of rights of put option by CEL Maiming and Guangwei Qinghe and the repayment of the pure loans in convertible bonds of Zhuhai Maiwen.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Save as disclosed in the Prospectus and this annual report, there were no other significant investments held, no material acquisitions or disposals of subsidiaries, associates and joint ventures during the year, nor was there any plan authorized by the Board for other material investments or additions of capital assets during the year ended 31 December 2018.

FOREIGN EXCHANGE RISK MANAGEMENT

The functional currency of the Group is Renminbi. The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 December 2018, certain bank balances were denominated in U.S. dollar and Hong Kong dollar. The Group has not entered into any financial instruments for hedging purpose as it is expected that foreign exchange exposure will not be material.

PLEDGE OF ASSETS

Pledge of equity interests in the following subsidiaries of the Group:

(1) As at 31 December 2018, 100% equity interests of Sichuan Yonghe Education Investment Limited were pledged to secure bank loans of RMB300,000,000 (31 December 2017: RMB550,000,000);

(2) As at 31 December 2018, 100% equity interests of Sichuan TOP Education Co., Ltd. were pledged to secure bank loans of RMB574,000,000 (31 December 2017: nil).

(3) 100% of the equity interests in Sichuan Guojian Investment Limited, the guarantee granted by Hope Education and the rights over tuition fees of Southwest Jiaotong University Hope College have been provided or pledged to China National Investment and Guaranty Corporation to counter guarantee the corporate guarantee provided by China National Investment and Guaranty Corporation in relation to the Group's asset-back-securities borrowings of RMB336,223,000 as at 31 December 2018 (31 December 2017: RMB432,447,000).

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the date of this annual report, the Group has not entered into any off-balance sheet transactions.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Our Board of Directors comprises nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. Our Directors are elected to serve a term of three years, which is renewable upon re-election.

The following table sets out key information in respect of the Directors of our Company:

Name	Age	Date of Joining the Group	Position	Date of Appointment	Responsibility
XU Changjun (徐昌俊)	62	18 April 2012	Chairman, Executive Director	2 February 2018 13 March 2017	Responsible for overseeing the affairs of the Board
WANG Huiwu (汪輝武)	46	5 January 2005	Executive Director, Chief Executive Officer, President	13 March 2017 2 February 2018 2 February 2018	Responsible for implementing Board resolutions, overall strategic planning and operational management of the Group
LI Tao (李濤)	49	5 December 2010	Executive Director, Chief Strategy Officer	13 March 2017 2 February 2018	Responsible for business development and mergers and acquisitions of the Group
WANG Degen (王德根)	48	15 October 2007	Non-executive Director	13 March 2017	Responsible for monitoring overall management and Strategic planning of the Group
LU Zhichao (呂志超)	48	13 March 2017	Non-executive Director	13 March 2017	Responsible for monitoring overall management and strategic planning of the Group
TANG Jianyuan (唐健源)	51	7 September 2016	Non-executive Director	13 March 2017	Responsible for monitoring overall management and strategic planning of the Group
ZHANG Jin (張進)	60	14 July 2018	Independent Non-executive Director	14 July 2018	Responsible for monitoring the Group and providing independent advice
CHEN Yunhua (陳雲華)	67	14 July 2018	Independent Non-executive Director	14 July 2018	Responsible for monitoring the Group and providing independent advice
GAO Hao (高皓)	36	14 July 2018	Independent Non-executive Director	14 July 2018	Responsible for monitoring the Group and providing independent advice

The following table sets out key information in respect of the senior management of our Company:

Name	Age	Date of First Joining the Group	Position	Date of Appointment	Roles and Responsibilities
WANG Huiwu (汪輝武)	46	5 January 2005	Chief Executive Officer, President	2 February 2018 2 February 2018	Responsible for implementing Board resolutions, overall strategic planning and operational management of the Group
JIANG Lin (蔣林)	52	18 February 2016	Chief Operating Officer, Executive Vice President	2 February 2018 2 February 2018	Responsible for overseeing the day-to-day operations of the Group
LOU Qunwei (婁群偉)	50	12 January 2005	Senior Vice President	2 February 2018	Responsible for the teaching and management of students
LI Tao (李濤)	49	5 December 2010	Chief Strategy Officer	2 February 2018	Responsible for business development and mergers and acquisitions of the Group
HE Xuan (何旋)	49	20 June 2017	Chief Financial Officer	2 February 2018	Responsible for finance management of the Group
HUANG Zhongcai (黃忠財)	34	1 July 2014	Vice President, Joint Company Secretary	14 November 2018 15 March 2018	Responsible for capital operations and investor relations
MA Jialing (馬嘉靈)	35	1 July 2006	Vice President	14 November 2018	Responsible for the administrative management of the Group

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

XU Changjun (徐昌俊), aged 62, is the chairman of the Board and an executive Director. Mr. Xu has been appointed as chairman of the Company since 2 February 2018 and executive Director of the Company since 13 March 2017. Mr. Xu has been a director of Hope Education since April 2012; the chairman of Hope Education since September 2016; a council member of Southwest Jiaotong University Hope College since June 2016; and a director of WFOE since 19 January 2018.

Mr. Xu was the chief auditor and director of financial supplies of Xihua University (formerly Chengdu Normal College (成都師範高等專科學校)) from 1989 to 1997, during which he was also the vice president of Sichuan Accounting Association of Colleges (四川省高校會計學會). From March 1997 to June 2010, he served as the director of the finance department, the supervision and audit department and the investment department of East Hope Group Co., Limited. The main businesses of East Hope Group Co. Limited are agriculture and heavy chemical industry; heavy chemical industry involves power, non-ferrous metals, bio-chemicals, coal chemical, chlor-alkali chemical, petrochemical, mining and building materials.

Mr. Xu received his master's education in statistics at Southwestern University of Finance and Economics in June 1989 and was qualified as a certified accountant in June 2000. He was selected as "Outstanding CFO in China" by Xin Li Cai Magazine (《新理財》) in April 2009 and was chosen to be featured on the cover page of CFO World in April 2010.

WANG Huiwu (汪輝武), aged 46, is an executive Director, the chief executive officer and the president. Mr. Wang has been appointed as executive Director of the Company since 13 March 2017 and chief executive officer and president of the Company since 2 February 2018. Mr. Wang has been the chairman of Sichuan Mayflower Professional College (四川五月花專修學院) since December 2004; a director and the president of Hope Education since October 2007; a supervisor of Sichuan Guojian Investment Limited since December 2007; a director of Southwest Jiaotong University Hope College since January 2009; an executive director of Shanghai Shurui Investment Consultant Limited since September 2011; a director of Sichuan Tianyi College since September 2011; a director of Ziyang Maysunshine Education Investment Limited since November 2012; the chairman of the council of Sichuan Hope Automotive Vocational College since May 2013; a director of Business College of Guizhou University of Finance and Economics since September 2014; a director of Jinci College of Shanxi Medical University since December 2014; the chairman of the council of Sichuan Hope Automotive Technical College since January 2017; and a director of WFOE since 19 January 2018.

Mr. Wang served as the principal and managing director of Chengdu Mayflower Computer Science Professional College (成都五月花計算機專業學校) from March 1999 to September 2007; and a supervisor of Hope Education from January 2005 to October 2007.

Mr. Wang graduated from Sichuan Normal University (Adult Higher Education) (四川師範大學 (成人高等教育)) in June 2009, majoring in business administration, and from Sichuan Normal University with a bachelor's degree in education in June 2013.

LI Tao (李濤), aged 49, is an executive Director and the chief strategy officer. Mr. Li has been appointed as executive Director of the Company since 13 March 2017 and chief strategy officer of the Company since 2 February 2018. Mr. Li has served as a director of Sichuan Tianyi College since September 2011; a director of Business College of Guizhou University of Finance and Economics since August 2014; a senior vice president of Hope Education since October 2014; a director of Jinci College of Shanxi Medical University since December 2014.

Mr. Li was the general manager of Chengdu Hanwang Technology Co., Ltd. (成都漢王科技有限公司) from July 1999 to December 2010. Chengdu Hanwang Technology Co., Ltd. is principally engaged in development of computer hardware technologies, technology transfer, technology consultation, technology services, investment consultation (excluding securities, finance, futures), sales of computer software, hardware and external equipment, machinery equipment and communication equipment (excluding radio equipment).

Mr. Li has been enrolled in the executive master of business administration distance learning program at China Europe International Business School in Beijing since May 2016.

WANG Degen (王德根), aged 48, is an non-executive Director. Mr. Wang has been appointed as an executive Director of the Company since 13 March 2017. Mr. Wang has served as the general manager of Neijiang Wanqian Feed Co., Ltd. (內江萬千飼料有限公司) since September 1999, Neijiang Wanqian Feed Co., Ltd. is principally engaged in process, production and sales of feed; the chairman of Sichuan Tequ Investment Group Limited since August 2005; a director of Hope Education since October 2007; the chairman of Hope Education since April 2012; the president of West Hope since March 2013; the chairman of Sichuan Dekang Farming and Technology Co., Ltd. (四川德康農牧科技有限公司) since April 2014, Sichuan Dekang Farming and Technology Co., Ltd. is principally engaged in sales of livestock and research and development of pigs farming; an authorized representative of Hope Education since May 2015; a council member of Southwest Jiaotong University Hope College since June 2016.

Mr. Wang served as the chairman and authorized representative of Southwest Jiaotong University Hope College from 20 July 2012 to 20 June 2016, and an executive director and authorized representative of Sichuan Guojian Investment Limited from April 2012 to May 2017.

Mr. Wang graduated from the MBA program at Guanghua School of Management of Peking University in July 2006, and graduated from electronic engineering profession (電子設備結構專業) at the University of Electronic Science and Technology of China in July 1994. Mr. Wang was awarded Outstanding Enterprising Talents in Sichuan Province (四川省優秀創業人才) by the People's Government of Sichuan Province of the Sichuan Provincial Party Committee (中共四川省委四川省人民政府) in August 2003; the "Top Ten Outstanding CEO" in China's animal husbandry and feed industry (中國畜牧飼料行業「十大傑出CEO」) by the Feed Economy Specialized Committee of China in December 2012; he was elected as the vice president of Sichuan Youth Federation in the 13th session of the committee plenary meeting of Sichuan Youth Federation in December 2014.

LU Zhichao (呂志超), aged 48, is a non-executive Director. Mr. Lu has been appointed as a non-executive Director of the Company since 13 March 2017. Mr. Lu has served as the managing director of the Renminbi Mezzanine Fund at China Everbright Limited since 3 June 2013.

Mr. Lu served in several positions at Bank of Nova Scotia from April 2001 to May 2013, including the chief representative of the Beijing Representative Office and the strategy development officer of the China region. From May 1995 to August 1998, Mr. Lu served as the deputy chief of the credit approval department of Bank of Communication, Shenzhen Branch (交通銀行深圳分行). From February 1994 to April 1995, he served as the forex trading manager of Shenzhen Ben Feng Investment Consulting Co., Ltd. (深圳市本豐投資諮詢有限公司). Shenzhen Ben Feng Investment Consulting Co., Ltd. is principally engaged in investment consultation services. From October 1992 to January 1994, Mr. Lu served as the account executive of China Merchants Bank, Shenzhen Branch (招商銀行深圳分行).

Mr. Lu obtained a bachelor's degree in international finance from Renmin University of China (中國人民大學) in June, 1992; a degree of master of arts from University of British Columbia in Canada in November 1999; a degree of master in business administration from University of Western Ontario in Canada in April 2001; and was qualified as a lawyer in China by the Ministry of Justice in September 1995.

TANG Jianyuan (唐健源), aged 51, is a non-executive Director. Mr. Tang has been appointed as non-executive Director of the Company since 13 March 2017. Mr. Tang has served as standing vice president and vice chairman of Sichuan Tequ Investment since December 2010 and a director of Hope Education since September 2016.

Mr. Tang served as the general manager at AnShun Tequ Feed Limited (安順特驅飼料有限公司) from April 2003 to December 2010. AnShun Tequ Feed Limited is principally engaged in process and sales of pigs and livestock feed.

Mr. Tang graduated from the executive master of business administration program at the School of Business of Renmin University of China (中國人民大學) in October 2006. In December 2016, he was elected vice president of Feed Industry Association of Sichuan Province (四川省飼料工業協會) and was awarded the National Science and Technology Progress Second Prize issued by the State Council in January 2018.

ZHANG Jin (張進), aged 60, is an independent non-executive Director. Mr. Zhang has been appointed as independent non-executive Director of the Company since 14 July 2018. Mr. Zhang has served as the chief accountant of West China Second University Hospital of Sichuan University since March 2015; the vice chairman of the Health Accounting Branch of China Health Economics Association since December 2015; a review expert in government procurement bidding of the Ministry of Finance since January 2013; the vice president of the Sichuan Health Economics Association since June 2016; a senior accountant review expert of Sichuan Province since February 2003; an internal control consultant of Sichuan Province since June 2017; a professor of Hospital Management Master of Business Administration of Sichuan University (四川大學) since June 2016; and a training expert in hospital management consulting in the PRC.

Mr. Zhang worked at the Health and Family Planning Commission of Sichuan Province till April 1988, being responsible for financial operation. He also served as a public servant before April 1998 and served as the finance minister of West China University Hospital of Sichuan University (四川大學華西醫院) from June 1998 to April 2011.

Mr. Zhang obtained a master's degree in economics from Southwestern University of Finance and Economics (西南財經大學) in June 1990 and a MBA in hospital management from California American University in May 2006. Mr. Zhang qualified as a senior accountant in July 2000.

CHEN Yunhua (陳雲華), aged 67, is an independent non-executive Director. Mr. Chan has been appointed as independent non-executive Director of the Company since 14 July 2018. Mr. Chan has been hired by the Ministry of Public Security as the head of Public Security Policeman Training Center (公安幹警培訓基地) since March 2017.

Mr. Chen was awarded Class I Police Rank from February 2010 to August 2014. He served as the vice president of the Sichuan Police Academy (四川省警察學會) from March 2002 to August 2014; the principal of Sichuan Police Academy (四川警察學院) from June 2009 to August 2014; the deputy secretary to the Party committee from June 2009 to August 2014 and a committee member of 11th Chinese People's Political Consultative Conference of Sichuan Province (四川省十一屆政協) from October 2010 to November 2015.

Mr. Chen obtained an undergraduate degree in December 1993 and a master's degree in law from Sichuan Union University (四川聯合大學) in October 1998.

GAO Hao (高皓), aged 36, is an independent non-executive Director. Dr. Gao has been appointed as an independent non-executive Director of the Company since July 2018. Dr. Gao has been the director of the Global Family Business Research Center (全球家族企業研究中心) at the Tsinghua University National Finance Research Institute (清華大學國家金融研究院) since September 2015. He has been the director of the Strategic Cooperation and Development Office (戰略合作與發展辦公室) of Tsinghua University PBC School of Finance (清華大學五道口金融學院) since December 2014. Dr. Gao served as executive director of the China Financial Case Center (中國金融案例中心) of Tsinghua University PBC School of Finance (清華大學五道口金融學院) from June 2013 to December 2014.

Dr. Gao's research and teaching focus on corporate governance, corporate finance, family succession enterprise and wealth management. He has authored dozens articles in academic journals and finance magazines and has published 15 books as author, chief editor or translator. Dr. Gao has been appointed as member of Think Tank Committee of All-China Federation of Industry and Commerce (全國工商聯智庫委員會) since February 2019, and served as council member and research fellow of the China Enterprise Reform and Development Research Association (中國企業改革與發展研究會) since December 2018 and September 2017 respectively. Dr. Gao has been appointed as member of STEP (國際信託與資產規劃學會) since May 2018. Since December 2010, Dr. Gao has been the chief editor of the Family Business Governance Series (家族企業治理叢書) and Family Wealth Inheritance Series (家族財富傳承叢書) published by the People's Publishing House and the Oriental Press.

Dr. Gao obtained a bachelor's degree from Tsinghua University in July 2005. He received a bachelor's degree in economics from Peking University in July 2007 and a doctorate degree in management science from Tsinghua University in June 2012. Dr. Gao was awarded certificates for completing Corporate Boards Program, Audit Committees Program and Compensation Committees Program at Harvard Business School in July 2015, certificates for completing Mergers and Acquisitions Program and People, Culture, and Performance Program at the Graduate School of Business of Stanford University in August 2017, certificate for completing Corporate Strategy Program at the Harvard Business School in March 2018, certificate for completing Risk Investment Program at the Wharton School in May 2018, and certificate for High Performance Board of Directors Program at the International Institute for Management Development (IMD) in October 2018.

Dr. Gao has served as an independent non-executive director of Modern Media Holdings Limited (stock code: 72), shares of which are listed on the Hong Kong Stock Exchange, since August 2016. Dr. Gao has served as an independent director of Xinyuan Real Estate Co., Ltd. (鑫苑地產控股有限公司), shares of which are listed on the New York Stock Exchange (stock code: XIN), since May 2018.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

WANG Huiwu (汪輝武), aged 46, is the chief executive officer and the president. For the biography of Mr. Wang, see "— Directors".

JIANG Lin (蔣林), aged 52, is the chief operating officer and the executive vice president. Mr. Jiang has been appointed as chief operating officer and executive vice president since 2 February 2018. Mr. Jiang has served as a standing vice president of Hope Education since February 2016.

Mr. Jiang Lin served as a technician at Hunan Chenxi Posts and Telecommunication Bureau from July 1981 to December 1983; secretary at Hunan Chenxi Posts and Telecommunication Bureau from December 1983 to March 1993; general secretary at Hunan Posts and Telecommunication Bureau Administration Office from July 1987 to March 1993; assistant and deputy director at Hunan Posts and Telecommunication Bureau Administration Office from March 1993 to April 1995. Mr. Jiang worked at the General Research Office of Hunan Posts and Telecommunication Bureau from April 1995 to October 1995; served as deputy director at News Department of Posts and Telecommunication Bureau from October 1995 to December 1996; deputy director at Secretary office at Posts and Telecommunication Bureau from December 1996 to October 1997, responsible for overseeing the general operation. He served as the deputy director and special secretary at Secretary office at Posts and Telecommunication Bureau from October 1997 to March 1998; special secretary at Information and Industry Bureau from March 1998 to August 1998; manager and assistant to office director at People's telecommunication office of Information and Industry Bureau from August 1998 to December 2001; deputy director at People's telecommunication office of Information and Industry Bureau from December 2001 to July 2007. Mr. Jiang served as a committee member of the Standing Committee and deputy mayor of Sichuan Ziyang Municipal from July 2007 to September 2012 and a committee member of the Standing Committee of Sichuan Ziyang Municipal Committee from September 2012 to January 2016. He has rich experience in the education, health, business, investment advancement and modern service industries as well as in administrative management and education management.

Mr. Jiang studied for his secondary school diploma in integrated telecommunications at Hunan Posts and Telecommunications School (湖南省郵電學校) in July 1981, his junior college diploma in Party and government administration from Hunan Radio and Television University (湖南省廣播電視大學) in July 1987 and his bachelor's degree in economics and management from the Party School of the Central Committee of the Communist Party of China (中共中央黨校) from August 2002 to December 2004. He studied business management at Graduate School of Chinese Academy of Social Science (中國社會科學院) from April 1994 to April 1996 and received his senior economist qualification from the Personnel department of the Ministry of Posts and Telecommunications of the People Republic of China in September 1998.

LOU Qunwei (婁群偉), aged 50, is the senior vice president. Ms. Lou has been appointed as the senior vice president of the Company since 2 February 2018. Ms. Lou has served as a supervisor of Shanghai Shurui Investment Consultant Limited since September 2011; a director of Sichuan Tianyi College since September 2011; a director of Sichuan Hope Automotive Vocational College since May 2013; the chairman of the council and legal representative of Sichuan Vocational College of Culture & Communication since July 2014; the senior vice president of Hope Education since October 2014; a council member of Sichuan Hope Automotive Technical College since January 2017; and a director of Sichuan Guojian Investment Limited since May 2017.

Ms. Lou served as assistant to the principal of Chengdu Jinjiang Cuisine School (now known as Chengdu New East Cuisine School) from November 2001 to August 2004; the head of office and external liaison officer of Chengdu Mayflower Computer Science Professional College from September 2004 to September 2007; the head of the human resources department, a manager of the administration department, an officer of the external liaison department and an assistant to the president of Hope Education from January 2005 to October 2014; and a director of Sichuan Yonghe Education Investment Limited from April 2014 to April 2017.

Ms. Lou received her junior college diploma education in economics and management at Xichang College (西昌學院) in July 1991 and a bachelor's degree in administrative management from China Central Radio and Television University (中央廣播電視大學) (now known as The Open University of China (國家開放大學)) in July 2010.

LI Tao (李濤), aged 49, is the chief strategy officer. For the biography of Mr. Li, see "—Directors".

HE Xuan (何旋), aged 49, is the chief financial officer. Mr. He has been appointed as chief financial officer of the Company since 2 February 2018. Mr. He has served as the chief financial director of Hope Education since June 2017.

Mr. He worked as an accountant in Huaxi Hope Luohe Wanqian Feedstuff Co., Ltd. (華西希望漯河萬千飼料有限公司) from April 1999 to April 2000, and was responsible for the infrastructure financial auditing during the company's construction preparation period and assisting in the early stages of preparation, market research, establishment of company's management system etc.; as head of finance division of Huaxi Hope Luohe Wanqian Feed Co., Ltd. from May 2000 to October 2001 (in charge of overall operation); as vice manager of the finance department of Huaxi Hope Luohe Wanqian Feed Co., Ltd. from November 2001 to December 2002 (in charge of overall operation, also in charge of the administration office of the company during the period); as manager of the finance department of Huaxi Hope Luohe Wanqian Feed Co., Ltd. from January 2003 to April 2008, responsible for assisting the general manager in strengthening the daily operation and management, strictly implementing the systems of rewards and punishments and disciplines, as well as offering advice and opinions, thereby enabled the company to achieve economic benefits.

Mr. He received college education in accounting at Southwestern University of Finance and Economic in October 1997.

HUANG Zhongcai (黃忠財), aged 34, is the Vice President and Joint Company Secretary. Mr. Huang was appointed as the Vice President of the Company with effect from 14 November 2018 and as the Joint Company Secretary of our Company with effect from 15 March 2018. Mr. Huang has been the Vice President of Hope Education since July 2014.

From December 2012 to July 2014, he served as head of finance department at Chengdu Mayflower Computer Science Professional College. Mr. Huang worked at E'mei Shan E'mei Chun Spirits Co., Ltd. (峨眉山峨眉春酒業有限公司) as general manager from 2011 to 2012. He has also worked at Sichuan Xian Zhi Zhu Jian Tea Sales Co., Ltd. (四川省仙之竹尖茶葉銷售有限公司) as manager, responsible for finance operation.

In June 2007, Mr. Huang graduated from Sichuan Agriculture University (四川農業大學) with a bachelor's degree in finance management.

MA Jialing (馬嘉靈), aged 35, is the Vice President of the Group. Ms. Ma was appointed as the Vice President of the Company since 14 November 2018. Ms. Ma was appointed as the director of security management department and member of presidents' meeting (總裁辦公會) of Hope Education since October 2014 and formulated a logistics support system, a charge management and student status management system under group management. In 2016 and 2017, she was awarded as an outstanding employee of Hope Education Group for two consecutive years. She was appointed as the general manager of Chengdu Muma Car Rental Co., Ltd (成都木馬汽車租賃有限公司) since October 2014.

Ms. Ma served as the consulting teacher, principal assistant, head of financial department and assistant to the president of Chengdu Mayflower Computer Science Professional College (成都五月花計算機專業學校) from August 2006 to September 2014.

Ms. Ma obtained her bachelor's degree in music education from Mianyang Teachers' College in Sichuan in June 2006.

CHANGE IN DIRECTOR'S INFORMATION

Save as disclosed herein, the Directors confirmed that there was no information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules in respect of their biographies.

JOINT COMPANY SECRETARY

HUANG Zhongcai (黃忠財) was appointed as one of the joint company secretaries of our Company on 15 March 2018. For the biography of Mr. Huang Zhongcai, See "— Senior Management".

LEUNG Wing Han Sharon (梁穎嫻) was appointed as one of the joint company secretaries of our Company on 15 March 2018. Ms. Leung is the vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly SW Corporate Services Group Limited). Ms. Leung is a fellow member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

ESTABLISHMENT AND LISTING

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 13 March 2017, and its shares were successfully listed on the Main Board of the Hong Kong Stock Exchange on 3 August 2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group focuses on providing higher education services. Details of the activities of its principal subsidiaries and consolidated affiliated entities are set out in Note 1 to the consolidated financial statements.

RESULTS AND BUSINESS REVIEW

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 127 of this annual report.

A fair review of the business of the Group during the year and its future development and outlook, important events affecting the Company that have occurred during the year ended 31 December 2018, an analysis of the Group's performance during the year using financial key performance indicators, and the Company's environment policy and performance as required under Schedule 5 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report, which also constitute part of this report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group has complied with the requirements under the Companies Ordinance, the Listing Rules and the SFO for, among other things, the disclosure of information and corporate governance. The Group has also adopted the Model Code.

The Group and its activities are required to comply with the requirements of laws and regulations of China, including but not limited to the Foreign Investment Industries Guidance Catalogue (2017 version) (《外商投資產業指導目錄》(2017年修訂)), the Education Law of the PRC (《中華人民共和國教育法》), the Law for Promoting Private Education (《民辦教育促進法》), the Implementation Rules for the Law for Promoting Private Education (《民辦教育促進法實施條例》), the Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) and other normative documents.

During the year ended 31 December 2018, the Group was not aware of material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

EMPLOYEES

As of 31 December 2018, the Group had approximately 5,357 faculty members. For details of the gender and age distribution and loss rate of employees, see the "Environmental, Social and Governance Report" of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

Our customers primarily consist of our students. We did not have any single customer who accounted for more than 5% of our revenue for the year ended 31 December 2018.

Our suppliers primarily comprise construction companies, properties development companies, teaching equipment vendors and universities with which we entered into cooperation agreements. For the year ended 31 December 2018, purchases from our five largest suppliers amounted to RMB384,112,629.18, representing 54.38% of our total purchases in the same period. During the same period, purchases from our largest supplier amounted to RMB207,384,134.01, representing 29.36% of our total purchases in the same period. One of our five largest suppliers for the year ended 31 December 2018 is Sichuan Wuyang Construction Co. Ltd. (四川五陽建築工程有限公司).

To the knowledge of our Directors, none of our Directors and their respective close associates or any Shareholders holding more than 5% of our issued share capital had any interests in any of our five largest suppliers for the year ended 31 December 2018.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with employees, suppliers and customers. During the year ended 31 December 2018, there were no material and significant dispute between the Group and its employees, suppliers and/or customers.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in the section headed "Risks in relation to the Arrangements and Action Take to Reduce Risks" in this report, the following list is a summary of certain principal risks and uncertainties facing by the Group:

- Our business and results of operations depend on the level of tuition and boarding fees we are able to charge and our ability to maintain and raise tuition and boarding fee levels.
- The private higher education business is relatively new and may not gain wide acceptance in China.
- We face intense competition in the PRC higher education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditure.
- We may not be able to execute our growth strategies successfully or effectively manage our growth, which may hinder our ability to capitalize on new business opportunities.
- We may not be able to successfully establish new schools pursuant to our proposed timeline or at all. We may not be able to successfully execute our plan to establish an university in the United States.
- We may not be able to successfully integrate businesses that we acquire, which may cause us to lose the anticipated benefits from such acquisitions and to incur significant additional expenses.
- We are subject to uncertainties brought by the Amendment of Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法修正案》) and the Draft Revision of the Implementation Rules on the Law for Promoting Private Education of the PRC (the Draft for Review) (《中華人民共和國民辦教育促進法實施條例（修正草案）（送審稿）》).
- We may not be able to register the independent colleges as for-profit private schools or complete relevant procedures or obtain the government registrations under the current form of the MOE Draft for Comments.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

The Company has implemented various measures to mitigate these risks and uncertainties. Further reviews are set out in the section headed "Corporate Governance Report - Risk Management and Internal Controls" in this annual report.

DIVIDEND POLICY

Our Company has adopted a dividend policy on payment of dividends. Any amount of dividends we pay will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors consider relevant (including all applicable PRC laws and regulations which our schools are required to comply with). Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Cayman Companies Law. Our Shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

PAYMENT OF FINAL DIVIDEND

The Board has resolved to proposed payment of a final dividend of RMB0.015 per share for the year ended 31 December 2018. The final dividend will be declared in Renminbi and paid in Hong Kong dollars. The exchange rate adopted for such translation is the average middle exchange rate published by the People's Bank of China of the five business days prior to the declaration of final dividend (i.e. from 15 March 2019 to 21 March 2019) (HK$1.0 to RMB0.8542). Accordingly, the amount of the final dividend payable in Hong Kong dollars will be HK$0.018 per share.

The final dividend will be paid on or about Monday, 17 June 2019 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 5 June 2019.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on 28 May 2019. Notice convening the AGM and other relevant documents will be published and dispatched to the Shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the AGM to be held on Tuesday, 28 May 2019, the register of members of the Company will be closed from Thursday, 23 May 2019 to Tuesday, 28 May 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to be qualified to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 22 May 2019.

In order to be qualified for the final dividend, the register of members of the Company will be closed from Monday, 3 June 2019 to Wednesday, 5 June 2019 (both days inclusive), during which period no transfer of shares will be registered. All share transfer documents accompanied by the relevant share certificates must be lodged with the Group's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 31 May 2019.

SHARE CAPITAL

Details of changes in the share capital of the Company during the year are set out in Note 26 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2018 are set out in Note 13 to the consolidated financial statements.

REPORT OF DIRECTORS

DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in reserves of the Company during the year ended 31 December 2018 are set out in Note 38 to the consolidated financial statements.

Our reserves available for distribution to the Shareholders consist of share premium. Under the Companies Law of the Cayman Islands and subject to compliance with the Articles of Association, the share premium account may be applied by the Company for paying distributions or dividends to the Shareholders if immediately following the date on which the distribution or dividend is proposed to be paid, we will be able to pay off our debts as they fall due in the ordinary course of business. As of 31 December 2018, the Company's reserve available for distribution to Shareholders amounted to approximately RMB2,702 million.

DIRECTORS

The Directors during the year ended 31 December 2018 and up to the date of this annual report were:

Executive Directors
Mr. Xu Changjun (Chairman)
Mr. Wang Huiwu (Chief Executive Office and President)
Mr. Li Tao (Chief Strategy Officer)

Non-Executive Directors
Mr. Wang Degen
Mr. Lu Zhichao
Mr. Tang Jianyuan

Independent Non-Executive Directors
Mr. Zhang Jin (Appointed on 14 July 2018)
Mr. Chen Yunhua (Appointed on 14 July 2018)
Dr. Gao Hao (Appointed on 14 July 2018)

Pursuant to Article 16.18 of the Articles of Association, Mr. Li Tao, Mr. Tang Jianyuan and Mr. Lu Zhichao shall retire by rotation and, being eligible, have offered themselves for re-election at the AGM.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company for an initial term of three years from 24 July 2018, and is subject to re-election as and when required under the Articles of Association. The term of each of the service contracts shall end when the service contract is terminated in accordance with the terms and conditions of the service contract or by either party giving to the other party not less than one month's prior notice in writing.

Each of our independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years from 24 July 2018, and is subject to re-election as and when required under the Articles of Association, which may be terminated in accordance with the terms and conditions of the letter of appointment or by either party giving to the other party not less than one month's prior notice in writing.

Save as aforesaid, no Director proposed for re-election at the AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than normal statutory compensation.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive Directors are independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive(s) of the Company is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Position	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company as at 31 December 2018
Wang Huiwu (汪輝武) (1)	Executive Director	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Wang Degen (王德根) (2)	Non-executive Director	Interest of spouse	4,140,948,240	Long Position	62.11%

Notes:

(1) Wang Huiwu (汪輝武) holds 96.00% interest in Maysunshine Limited, which in turn holds 49.00% interest in Hope Education Investment Limited. Hope Education Investment Limited holds 62.11% interest in the Company. Accordingly, Wang Huiwu (汪輝武) is deemed as holding interest in the Company through Hope Education Investment Limited.

(2) Wang Degen (王德根) and Zhang Qiang (張強) are spouses. Therefore, for the purpose of the SFO, Wang Degen (王德根) is deemed or taken to be interested in all the shares Zhang Qiang (張強) is interested in.

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive(s) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Pre-IPO Share Options granted to the Directors, at no time during the year was the Company, or its holding company, 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 corporations.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

To the knowledge of any of directors or chief executives of the Company, as at 31 December 2018, the following persons (other than the directors or chief executives of the Company) or entities have an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company as at 31 December 2018
Hope Education Investment Limited(1)	Beneficial interest	4,140,948,240	Long Position	62.11%
Maysunshine Limited(1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Tequ Group A Limited(1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Tequ Group (Hong Kong) Company Limited(1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Shanghai Yi Zeng Management Co., Ltd. (上海乙增管理有限公司) (1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Sichuan Tequ Investment (1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
West Hope (1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司) (1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Zhang Qiang (張強) (1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Chen Yuxin (陳育新) (1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Zhao Guiqin (趙桂琴) (1)	Interest in controlled corporation	4,140,948,240	Long Position	62.11%
Pearl Glory Global Limited(2)	Beneficial interest	413,809,100	Long Position	6.21%

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Long Position/ Short Position	Approximate Percentage of Shareholding in the Company as at 31 December 2018
CEL Maiming(2)	Interest in controlled corporation	413,809,100	Long Position	6.21%
CEL Huiling Investment (Shanghai) Co., Limited (光控匯領投資 (上海) 有限公司) ("CEL Huiling") (2)	Interest in controlled corporation	651,909,158	Long Position	9.78%
CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司) (2) (4)	Interest in controlled corporation	651,909,158	Long Position	9.78%
China Everbright Limited(2) (3) (4)	Interest in controlled corporation	852,861,338	Long Position	12.79%
Honorich Holdings Limited(3)	Interest in controlled corporation	852,861,338	Long Position	12.79%
Datten Investments Limited(3)	Interest in controlled corporation	852,861,338	Long Position	12.79%
China Everbright Holdings Co., Limited (中國光大集團有限公司) ("CE Hong Kong") (3)	Interest in controlled corporation	852,861,338	Long Position	12.79%
China Everbright Group Ltd. (中國光大集團股份公司) ("China Everbright Group") (3)	Interest in controlled corporation	852,861,338	Long Position	12.79%
Central Huijin Investment Limited (中央匯金投資有限責任公司) ("Central Huijin") (3)	Interest in controlled corporation	852,861,338	Long Position	12.79%
Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) (4)	Interest in controlled corporation	413,809,100	Long Position	6.21%
Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司) (4)	Interest in controlled corporation	413,809,100	Long Position	6.21%
Chongqing CEL Equity Investment Management Limited (重慶光控股權投資管理有限公司) (4)	Interest in controlled corporation	413,809,100	Long Position	6.21%
Yixing CEL(4)	Interest in controlled corporation	413,809,100	Long Position	6.21%
CEL Capital Prestige Asset Management Co., Ltd. (首譽光控資產管理有限公司) (4)	Interest in controlled corporation	413,809,100	Long Position	6.21%

Notes:

(1) Hope Education Investment Limited, a BVI company, is owned as to 49.00% by Maysunshine Limited, 34.385% by Tequ Group A Limited and 16.615% by Tequ Group Limited.

Maysunshine Limited is owned as to 96.00% by Wang Huiwu (汪輝武), 2.00% by Fu Wenge (付文革) and 2.00% by Wang Degen (王德根).

Tequ Group A Limited is a wholly-owned subsidiary of Tequ Group (Hong Kong) Company Limited. Tequ Group (Hong Kong) Company Limited is wholly owned by Shanghai Yi Zeng Enterprise Management Co., Ltd. (上海乙增企業管理有限公司). Shanghai Yi Zeng Enterprise Management Co., Ltd. (上海乙增企業管理有限公司) is wholly owned by Sichuan Tequ Investment, which is in turn owned as to 55% by West Hope and 45% by Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司). West Hope is owned as to 60% by Chen Yuxin (陳育新) and 40% by Zhao Guiqin (趙桂琴). Chen Yuxin (陳育新) and Zhao Guiqin (趙桂琴) are spouses. Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司) is owed as to 52.20% by Zhang Qiang (張強).

Thus, Maysunshine Limited, Wang Huiwu (汪輝武), Tequ Group A Limited, Tequ Group (Hong Kong) Company Limited, Shanghai Yi Zeng Enterprise Management Co., Ltd. (上海乙增企業管理有限公司), Sichuan Tequ Investment, West Hope, Sichuan Pahua Agricultural Technology Development Limited (四川普華農業科技發展有限公司), Zhang Qiang (張強), Chen Yuxin (陳育新) and Zhao Guiqin (趙桂琴) are deemed to be interested in 4,140,948,240 Shares.

(2) Star Leap Limited, an investment holding company directly holding approximately 4.02% of the Company, is indirectly wholly-owned by China Everbright Limited.

Pearl Glory Global Limited, an investment holding company holding approximately 8.28% of the Company, is wholly-owned by CEL Maiming. CEL Huiling is the general partner of CEL Maiming. Accordingly, each of CEL Maiming and CEL Huiling is deemed to be interested in the Shares held by Pearl Glory Global Limited under the SFO.

CEL Huiling was wholly-owned by CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which was in turn wholly-owned by China Everbright Limited.

Glory Aurora Limited, an investment holding company directly holding approximately 4.76% of the Company, is wholly-owned by Zhuhai Maiwen. The general partner of Zhuhai Maiwen is CEL Huiling, a wholly-owned subsidiary of CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which is in turn indirectly wholly-owned by China Everbright Limited.

Accordingly, each of CEL Huiling and CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司) is deemed to be interested in the Shares held by each of Pearl Glory Global Limited and Glory Aurora Limited, whereas China Everbright Limited is deemed to be interested in the Shares held by each of Star Leap Limited, Pearl Glory Global Limited and Glory Aurora Limited under the SFO.

(3) China Everbright Limited was owned as to approximately 49.386% by Honorich Holdings Limited and 0.358% by Everbright Investment & Management Limited (光大投資管理有限公司), respectively. Honorich Holdings Limited was wholly-owned by Datten Investments Limited, and each of Everbright Investment & Management Limited (光大投資管理有限公司) and Datten Investments Limited was in turn wholly-owned by CE Hong Kong, which was in turn wholly-owned by China Everbright Group. China Everbright Group was owned as to approximately 55.67% by Central Huijin and was indirectly wholly-owned by the State Council of the PRC.

Accordingly, each of China Everbright Limited, Honorich Holdings Limited, Datten Investments Limited, CE Hong Kong, China Everbright Group and Central Huijin is deemed to be interested in the Shares held by each of Star Leap Limited, Pearl Glory Global Limited and Glory Aurora Limited under the SFO.

(4) Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) is a limited partnership holding approximately 61.20% of the limited partnership interest in CEL Maiming.

The general partner of Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) is Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司). CEL Capital Prestige Asset Management Co., Limited (首譽光控資產管理有限公司) is a limited partner of Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) holding approximately 99.98% of its limited partnership interest.

Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司) was wholly-owned by Chongqing CEL Equity Investment Management Co., Limited (重慶光控股權投資管理有限公司), which was in turn wholly-owned by Yixing CEL. Yixing CEL was wholly-owned by CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which was in turn wholly-owned by China Everbright Limited.

CEL Capital Prestige Asset Management Co., Limited (首譽光控資產管理有限公司) is 49% owned by Chongqing CEL Equity Investment Management Co., Limited (重慶光控股權投資管理有限公司).

Save as disclosed above, as at 31 December 2018, the Directors or chief executives of the Company are not aware of any other person or entity who has an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO.

2018 PRE-IPO SHARE OPTION SCHEME

The Company adopted the 2018 Pre-IPO Share Option Scheme on 18 March 2018 for the purpose of incentivizing eligible participants for their contribution to the Group. The following is a summary of the principal terms of the 2018 Pre-IPO Share Option Scheme. The terms of the 2018 Pre-IPO Share Option Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the 2018 Pre-IPO Share Option Scheme will not involve the grant of Pre-IPO Share Options by us to subscribe for Shares after we have become a listed issuer.

Purpose

The 2018 Pre-IPO Share Option Scheme is a share incentive scheme and is established to, among others, promote the success and enhance the value of the Company by linking the personal interests of the selected participants to those of the Shareholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Shareholders. The 2018 Pre-IPO Share Option Scheme will enable the Company to retain, motivate and reward the services of the selected participants, and to provide remuneration, compensation and/or benefits.

Who may Join

The eligible participants under the 2018 Pre-IPO Share Option Scheme (the "**Participants**") include the following:

(i) any director (including Executive Director, Non-executive Director and Independent Non-executive Director) of any member of the Group from time to time and any employee or officer of any member of the Group; and

(ii) any senior officer, advisor, consultant, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of any member of the Group;

whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

Maximum Number of Shares

The total number of Shares subject to the 2018 Pre-IPO Share Option Scheme is 500,000,000 Shares, representing approximately 7.5% of the total issued Shares as at the date of this annual report.

Maximum Entitlement Of Each Participant

Under the 2018 Pre-IPO Share Option Scheme, the Board shall be entitled to make an offer to any participant for the grant of an option for the subscription of such number of Shares as the Board may determine. Any offer may be accepted by the grantees of the Pre-IPO Share Options (the "**Grantees**") in respect of less than the number of Shares to which the offered option relates.

Vesting and Exercise Period

Except as provided otherwise and subject to the terms and conditions upon which such Pre-IPO Share Option was granted, the vesting period for any Pre-IPO Share Option granted to a Grantee under the 2018 Pre-IPO Share Option Scheme will be stated in the grant letter through which the offer is made.

The Pre-IPO Share Options are only exercisable upon the Listing of our Shares on the Hong Kong Stock Exchange. There is no performance target that needs to be achieved by the Grantee before the Pre-IPO Share Options can be exercised.

Amounts Payable for Application or Acceptance of Share Options

The Pre-IPO Share Option shall remain open for acceptance by the participant to whom an offer is made for a period of five days from the offer date, provided that no such offer shall be open for acceptance after the 2018 Pre-IPO Share Option Scheme has been terminated in accordance with the provisions thereof. HK$1.00 is required to be paid by the Grantees as consideration for the grant of the Pre-IPO Share Option.

Exercise Price

There are in total three tranches of Pre-IPO Share Options under the 2018 Pre-IPO Share Option Scheme, namely Pre-IPO Share Options under tranche A ("**Tranche A Options**"), tranche B ("**Tranche B Options**") and tranche C ("**Tranche C Options**"). Subject to any alteration in the capital structure of the Company by way of capitalization of profits or reserves, rights issue, sub-division or consolidation of Shares or reduction of share capital of the Company, the exercise price is RMB0.5911 for Tranche A Options, RMB0.9311 for Tranche B Options, and RMB1.1311 for Tranche C Options.

Duration of the 2018 Pre-IPO Share Option Scheme

The 2018 Pre-IPO Share Option Scheme shall be valid and effective for the period of time commencing on the scheme adoption date of 18 March 2018 and expiring on the day immediately prior to the date on which the Shares first commence trading on the Hong Kong Stock Exchange (i.e. 3 August 2018), after which period no further Pre-IPO Share Options will be granted but the provisions of the 2018 Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Pre-IPO Share Options which are granted during the life of the scheme or otherwise as may be required in accordance with the provisions of the 2018 Pre-IPO Share Option Scheme.

Share Options Granted under the 2018 Pre-IPO Share Option Scheme

As of 31 December 2018, the number of relevant Shares subject to outstanding options granted under the 2018 Pre-IPO Share Option Scheme is 464,723,519 Shares, representing approximately 6.97% of the issued share capital of the Company. As of 31 December 2018, our Company had granted Pre-IPO Share Options to 340 Participants under the 2018 Pre-IPO Share Option Scheme.

The following table discloses movements in the outstanding options granted to all grantees under the Pre-IPO Share Option Scheme:

Grantees	Number of share options					Date of Grant	Exercise Period	Exercise Price per Share Option RMB per share	Vesting Period	Price of the Company's shares Immediately before the grant date of options RMB per share	Weighted average closing price of the Company's shares	
	As at 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2018						Immediately before the exercise date RMB per share	At exercise date of options HK$ per share
Directors												
Xu Changjun	0	1,288,871	—	—	1,288,871	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		859,247			859,247		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Li Tao	0	6,659,167	—	—	6,659,167	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		2,685,148			2,685,148		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Sub-total	**0**	**11,492,433**	—	—	**11,492,433**					—	—	—
Senior Management												
Jiang Lin	0	3,329,583	—	—	3,329,583	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		2,685,148			2,685,148		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Lou Qunwei	0	2,685,148	—	—	2,685,148	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		2,685,148			2,685,148		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			

Grantees	Number of share options: As at 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2018	Date of Grant	Exercise Period	Exercise Price per Share Option RMB per share	Vesting Period	Price of the Company's shares Immediately before the grant date of options RMB per share	Weighted average closing price of the Company's shares Immediately before the exercise date RMB per share	Weighted average closing price of the Company's shares At exercise date of options HK$ per share
He Xuan	0	1,396,277	—	—	1,396,277	18 March 2018	From 2 February 2019 to 2 August 2038	0.5911	From 18 March 2018 to 2 February 2019	—	—	—
Huang Zhongcai	0	5,477,702	—	—	5,477,702	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		2,255,524			2,255,524		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Ma Jialing	0	880,728	—	—	880,728	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		375,920			375,920		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Sub-total	**0**	**21,771,178**	—	—	**21,771,178**					—	—	—
Connected Persons (excluding Directors)												
Chen Xiaohui	0	1,127,762	—	—	1,127,762	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		483,326			483,326		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Dai Jun	0	590,732	—	—	590,732	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		247,033			247,033		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
He Shengli	0	1,288,871	—	—	1,288,871	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		859,247			859,247		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Hu Wenhua	0	2,255,524	—	—	2,255,524	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		966,653			966,653		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			

Grantees	Number of share options: As at 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2018	Date of Grant	Exercise Period	Exercise Price per Share Option RMB per share	Vesting Period	Price of the Company's shares Immediately before the grant date of options RMB per share	Weighted average closing price of the Company's shares: Immediately before the exercise date RMB per share	At exercise date of options HK$ per share
Li Xiaoyun	0	1,353,314	—	—	1,353,314	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		579,991			579,991		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Liu Hongxin	0	1,127,762	—	—	1,127,762	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		322,217			322,217		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Lu Hui	0	751,841	—	—	751,841	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		322,217			322,217		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Shen Wenge	0	2,255,524	—	—	2,255,524	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		966,653			966,653		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Tang Yong	0	1,503,682	—	—	1,503,682	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		644,435			644,435		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			

Grantees	Number of share options: As at 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2018	Date of Grant	Exercise Period	Exercise Price per Share Option RMB per share	Vesting Period	Price of the Company's shares Immediately before the grant date of options RMB per share	Weighted average closing price of the Company's shares: Immediately before the exercise date RMB per share	At exercise date of options HK$ per share
Tao Xiuzhen	0	2,685,148	—	—	2,685,148	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		2,685,148			2,685,148		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Wang Huijun	0	5,370,296	—	—	5,370,296	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		805,544			805,544		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Wang Huiliang	0	5,370,296	—	—	5,370,296	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		644,435			644,435		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Wang Huiming	0	5,370,296	—	—	5,370,296	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		644,435			644,435		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Wu Jianwei	0	214,811	—	—	214,811	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		85,924			85,924		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Wu Yucong	0	601,473	—	—	601,473	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		257,774			257,774		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Xu Chunfang	0	1,944,047	—	—	1,944,047	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		805,544			805,544		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			

Grantees	As at 1 January 2018	Granted during the year	Exercised during the year	Forfeited during the year	As at 31 December 2018	Date of Grant	Exercise Period	Exercise Price per Share Option RMB per share	Vesting Period	Price of the Company's shares Immediately before the grant date of options RMB per share	Weighted average closing price of the Company's shares Immediately before the exercise date RMB per share	Weighted average closing price of the Company's shares At exercise date of options HK$ per share
	Number of share options											
Yan Youlin	0	1,074,059	—	—	1,074,059	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		429,623			429,623		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Zou Yong	0	265,243	—	265,243	—	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		106,097	—	106,097	—		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Peng Lan	0	1,611,088	—	—	1,611,088	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
Wang Weihang	0	3,222,178	—	—	3,222,178	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
Wang Xiaoqiang	0	751,841	—	—	751,841	18 March 2018	From 2 February 2019 to 2 August 2038	0.9311	From 18 March 2018 to 2 February 2019	—	—	—
		322,217			322,217		From 2 February 2020 to 2 August 2020		From 18 March 2018 to 2 February 2020			
Sub-total	**0**	**52,914,301**	—	**371,340**	**52,542,961**					—	—	—
Employees (excluding Directors, senior management and connected persons)												
73 individuals	0	69,492,358	—	1,704,309	67,788,049	18 March 2018	From 2 February 2019 to 2 August 2038 or from 2 February 2020 to 2 August 2020	0.9311/1.131	From 18 March 2018 to 2 February 2019 or from 18 March 2018 to 2 February 2020	—	—	—
Other Grantees												
239 individuals	0	309,053,249	—	10,696,209	298,357,040	18 March 2018	From 2 February 2019 to 2 August 2038 or from 2 February 2020 to 2 August 2020	0.9311/1.131	From 18 March 2018 to 2 February 2019 or from 18 March 2018 to 2 February 2020	—	—	—
Total	**0**	**464,723,519**	—	**12,771,858**	**451,951,661**					—	—	—

As of 31 December 2018, save as disclosed above, no share options were exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme.

Note: Details of the 2018 Pre-IPO Share Option Scheme adopted on 18 March 2018 are set out in Note 27 to the consolidated financial statement of this annual report.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the Listing Date and up to 31 December 2018, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group on 31 December 2018 are set out in Note 22 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the 2018 Pre-IPO Share Option Scheme as described in the above, no equity-linked agreements were entered into by the Company for the year ended 31 December 2018.

DIRECTORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Continuing Connected Transactions" in this report, for the year ended 31 December 2018, none of the Directors or entities connected with the Directors, had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its controlling company, any of its subsidiaries or fellow subsidiaries was a party.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2018.

CONTRACTS OF SIGNIFICANCE ENTERED INTO WITH CONTROLLING SHAREHOLDERS

During the year ended 31 December 2018, save as disclosed in the section headed "Continuing Connected Transactions" in this report, no other contract of significance was entered into by the Company or any of its subsidiaries with the Controlling Shareholders of the Company or its subsidiaries.

During the year ended 31 December 2018, there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder of the Company or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

In the related party transactions disclosed in Note 31 to the consolidated financial statements, the following transactions constitute continuing connected transactions of the Company and need to be disclosed in this annual report under Chapter 14A of the Listing Rules. The Company confirms that it has been in compliance with disclosure requirements under Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions.

1. Property Leasing Framework Agreement

Since 2014 and during the year ended 31 December 2018, our schools have leased certain properties to certain of the 30%-controlled companies of Mr. Wang Huiwu and the then subsidiaries of Hope Education, which became subsidiaries of Tequ Education following the division as discussed in "History — Reorganization of our Consolidated Affiliated Entities — The Division of Hope Education for Delineation of Business" in the Prospectus. Our Company, Mr. Wang Huiwu and Tequ Education entered into a property leasing framework agreement (the "**Property Leasing Framework Agreement**") on 20 July 2018 in respect of the leasing of land, buildings, ancillary facilities from us to Tequ Education and/or its associates. The following table sets forth a summary of the Property Leasing Framework Agreement.

Lessee	Lessor	Duration of the Lease	Description of the properties leased	Historical amounts for the year ended 31 December				Proposed annual cap for the year ended 31 December		
				(in millions of RMB)						
				2015	2016	2017	2018	2019	2020	2021
Mr. Wang Huiwu and Tequ Education and/or their respective associates	Our Company	For a period of three years commencing on the Listing Date; if neither party raises any objection and subject to the regulatory requirements in the place where our Shares are listed, the term will be automatically renewed for a further term of three years upon expiry.	Land area of approximately 0.4 million sq.m.; gross floor area of approximately 0.2 million sq.m.	22.4	24.6	23.3	25.9	29.0	31.0	33.0

As Mr. Wang Huiwu is an executive Director of our Company and Tequ Education is an associate of our Substantial Shareholders, each of Mr. Wang Huiwu and Tequ Education is our connected person under Rules 14A.07(1), 14A.07(4) and 14A.13(1) of the Listing Rules.

Mr. Wang Huiwu and Tequ Education and/or their respective associates lease certain of our properties for the use of teaching, training and ancillary activities, and we expect that we will continue to lease such properties to Mr. Wang Huiwu and Tequ Education and/or its associates in the future to better utilize our idle properties.

The rental receivable per annum is determined with reference to the market rate as determined by our property valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, pursuant to applicable laws and regulations and the Listing Rules.

The amounts of rent paid or payable by Tequ Education and/or its associates to us for the years ended 31 December 2015, 2016, 2017 and 2018 were RMB22.4 million, RMB24.6 million, RMB23.3 million and RMB25.9 million, respectively. The annual caps were estimated based on the rental receivable as determined with reference to (i) the historical amounts; and (ii) as advised by our property valuer, according to market practice, landlords would usually offer a discounted rental rate for the first couple of years in long-term leases of large sites, after which rental rates would be gradually increased over the course of the term of the lease. Our property valuer has confirmed that (i) the terms and conditions of the Property Leasing Framework Agreement are made on normal commercial terms, fair and reasonable and on market rate; and (ii) the total amount payable to us under the Property Leasing Framework Agreement is no less favorable than those offered by Independent Third Parties.

2. **Equipment Procurement Framework Agreement**

We entered into an equipment procurement framework agreement with Sichuan Mayflower Precision Instrument Co., Ltd. (四川五月花精密機械有限公司) ("**Mayflower Precision Instrument**") on 20 July 2018 (the "**Equipment Procurement Framework Agreement**"), whereby Mayflower Precision Instrument agreed to sell certain equipment to our Group, including but not limited to dormitory beds, student training equipment such as models and tools.

The Equipment Procurement Framework Agreement became effective on the Listing Date and is valid for a term of three years. If neither party raises any objection and subject to the regulatory requirements in the place where our Shares are listed, the term will be automatically renewed for a further term of three years upon expiry.

Mayflower Precision Instrument is a majority-controlled company of Mr. Wang Huiwu, an executive Director. Therefore, Mayflower Precision Instrument is a connected person under Rules 14A.07(1) and 14A.12(1)(c) of the Listing Rules.

The Group has from time to time purchased equipment including dormitory beds and student training equipment from Mayflower Precision Instrument. Based on the established long-term cooperation relationship between Mayflower Precision Instrument and our Group, Mayflower Precision Instrument has a track record of providing stable supply of quality and customized equipment. As compared to many other suppliers who are Independent Third Parties, Mayflower Precision Instrument has a better understanding of the equipment required by educational institutions, and our needs. Furthermore, there had not been any material disputes between our Group and Mayflower Precision Instrument with regard to settlement and quality of the equipment procured. Our Directors (including the non-executive Directors) are of the view that it is in the interest of our Company and the Shareholders as a whole to enter into the Equipment Procurement Framework Agreement and continue to procure equipment from Mayflower Prevision Instrument.

Under the Equipment Procurement Framework Agreement, the procurement costs shall be determined on a cost-plus basis, with a mark-up rate of no more than 5%, which is arrived at after arm's length negotiation between the parties and with reference to market price for similar products provided by suppliers who are Independent Third Parties in the vicinity. With respect to the assessment and selection of equipment suppliers, the Group will compare the quotations submitted by no less than two suppliers who are Independent Third Parties with that of Mayflower Precision Instrument before entering into any definitive equipment procurement agreement, taking into account a variety of factors including but not limited to price, quality of products and prior cooperation relationship.

The procurement costs payable by our Group to Mayflower Precision Instrument for the three years ended 31 December 2016, 2017 and 2018 were RMB4.89 million, RMB3.78 million and RMB5.53 million, respectively.

The maximum amount of procurement costs payable to Mayflower Precision Instrument for each of the three years ended 31 December 2019, 2020 and 2021 shall not, based on the aforesaid pricing mechinism, exceed the caps set out below:

	Proposed annual cap for the year ended 31 December		
	2019	**2020**	**2021**
		(RMB'000)	
Total amount	6,000	6,000	6,000

In arriving at the above annual caps, our Directors have considered (i) the prevailing market rates for the similar types of equipment in the vicinity; (ii) the historical procurement costs incurred by our Group during the Track Record Period; and (iii) the expected increase in demand for relevant equipment in light of our potential business development and expansion plan to construct new schools.

Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company, having considered the summary of continuing connected transactions of the Group as recorded during the year, have confirmed that the above continuing connected transactions for the year ended 31 December 2018 were entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better terms; and (iii) in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Confirmation from the Independent Auditor

Ernst & Young, the independent auditor of the Company, has been engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

In respect of Rule 14A.56 of the Listing Rules, Ernst & Young has provided a letter to the Board containing its findings and conclusions, confirming that (i) nothing has come to their attention that causes the auditor to believe that the abovementioned continuing connected transactions have not been approved by the Board of Directors; (ii) nothing has come to their attention that causes the auditor to believe that the transactions were not entered into, in all material respects, in accordance with the terms of the relevant agreements governing such transactions; and (iii) with respect to the aggregate amount of each of the abovementioned continuing connected transactions, nothing has come to their attention that causes the auditor to believe that the amounts have exceeded the maximum aggregate annual value disclosed in the Prospectus. The auditor has provided the auditor's letter to the Hong Kong Stock Exchange.

The Directors confirmed that the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions.

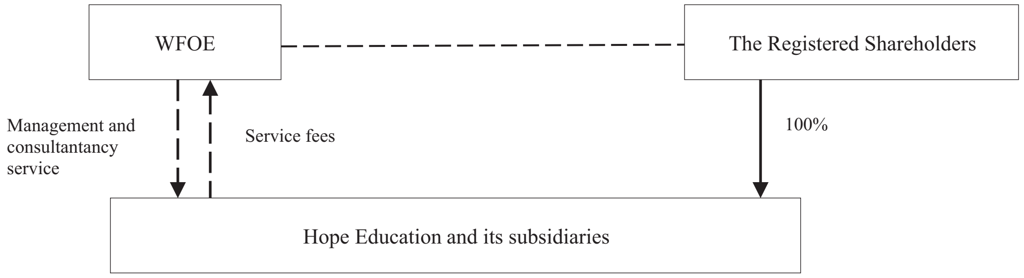
3. Contractual Arrangements

Reasons for Entering into Contractual Arrangements

We currently conduct our private education business through our consolidated affiliated entities in the PRC, as PRC laws and regulations, or the implementation of PRC laws and regulations relating to foreign ownership in the higher education industry by relevant government authorities, generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign ownership, in addition to imposing a qualification requirement on the foreign owners. Further, government approvals in respect of Sino-foreign ownership in the private education sector have, with very limited exception, been withheld. We do not hold any direct equity interest in our consolidated affiliated entities. The contractual arrangements, through which we are able to exercise control over, and derive the economic benefits from our consolidated affiliated entities, have been narrowly tailored to achieve our business purpose and minimize potential conflict with relevant PRC laws and regulations.

In order to comply with the PRC laws and regulations as set out above while availing ourselves to international capital markets and maintaining effective control over all of our operations, on 14 March 2018, our wholly-owned subsidiary, WFOE entered into various agreements (as amended and superseded by certain agreements dated 22 June 2018, as the case may be) that together constitute the contractual arrangements with, among others, our consolidated affiliated entities, under which substantially all economic benefits arising from the business of our consolidated affiliated entities are transferred to WFOE to the extent permitted under the PRC laws and regulations by means of services fees payable by our consolidated affiliated entities to WFOE.

The following simplified diagram illustrates the flow of economic benefits from Hope Education to us under the contractual arrangements:



Notes:

(1) 「⟶」 denotes direct legal and beneficial ownership in the equity interest.

(2) 「---▶」 denotes contractual relationship.

(3) 「- - -」 denotes the control by WFOE over the Registered Shareholders through (1) powers of attorney to exercise all shareholders' rights in Hope Education, (2) exclusive options to acquire all or part of the equity interests in Hope Education and (3) equity pledges over the equity interests in Hope Education.

(4) Registered Shareholders refer to shareholders of Hope Education, namely, Sichuan Tequ Investment, Chengdu Mayflower Investment Management, CEL Maiming and Guangwei Qinghe.

As of the date of this annual report, we had not encountered any interference or encumbrance from any PRC governing bodies in relation to the contractual arrangements. The consolidated financial results of our consolidated affiliated entities, which engage in education service, are consolidated into those of our Group.

Listing Rules Implications

The table below sets forth the connected persons of our Company involved in the contractual arrangements and the nature of their connection with our Group. The transactions under the contractual arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing.

Name	Connected relationships
Sichuan Tequ Investment and Chengdu Mayflower Investment Management	A substantial shareholder of Hope Education, and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Wang Huiwu and Tang Jianyuan	Substantial Shareholders and Directors of the Company and therefore connected persons of our Company under Rule 14A.07(1) of the Listing Rules
Wang Degen	A Director of the Company, and a substantial shareholder and a director of Hope Education and therefore a connected person of our Company under Rule 14A.07(1) of the Listing Rules
Sichuan Tequ Investment, West Hope, Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司), Sichuan Shengbo Genyuan Trade Limited (四川生搏根源貿易有限公司), Fu Wenge (付文革), Chen Yuxin (陳育新), Zhao Guiqin (趙桂琴), Zhang Qiang (張強), Liu Birong (劉碧容), Wang Qiang (王強), Lan Hai (蘭海), Zeng Zheng (曾正), Zhou Xingbang (周興幫), Wang Xiaoguo (王孝國), Xiao Song (肖崧), Mei Shaofeng (梅紹鋒)	Substantial Shareholders of the Company and therefore connected persons of our Company under Rule 14A.07(1) of the Listing Rules
Chengdu Mayflower Investment Management, CEL Maiming, Guangwei Qinghe	Substantial Shareholders of Hope Education and therefore connected persons of our Company under Rule 14A.07(1) of the Listing Rules
Spouses of the Substantial Shareholders (as applicable)	Spouses of the Substantial Shareholders of the Company and therefore connected persons of our Company under Rule 14A.07(1) and Rule 14A.12(1)(a) of the Listing Rules

Summary of the Material Terms of the Contractual Arrangements

A description of each of the specific agreements that comprise the Contractual Arrangements is set out below.

(1) Exclusive Management Consultancy and Business Cooperation Agreement

Pursuant to the exclusive management consultancy and business cooperation agreement dated 14 March 2018 entered into by and among WFOE, Hope Education and its subsidiaries and its Registered Shareholders (the "**Exclusive Management Consultancy and Business Cooperation Agreement**"), WFOE has the exclusive right to provide, or designate any third party to provide each of our consolidated affiliated entities with corporate management and educational services, intellectual property licensing services as well as technical and business support services. WFOE is entitled to own all intellectual property rights arising out of the performance of this agreement. Our consolidated affiliated entities agree to pay the entirety of their total income for the services provided by WFOE (net of costs, expenses, taxes and payments required by the relevant laws and regulations to be reserved or withheld).

As Zhuhai Maiwen became a shareholder of Hope Education after conversion of the Convertible Loan and thus a Registered Shareholder, on 22 June 2018, the WFOE, Hope Education and its Registered Shareholders entered into a second exclusive management consultancy and business cooperation agreement (the "**Second Exclusive Management Consultancy and Business Cooperation Agreement**"), which replaced and superseded the Exclusive Management Consultancy and Business Cooperation Agreement in its entirety. Save for the date of and parties to the agreement, the terms and conditions of the Second Exclusive Management Consultancy and Business Cooperation Agreement are substantially the same as those of the Exclusive Management Consultancy and Business Cooperation Agreement.

(2) Exclusive Call Option Agreement

Under the exclusive call option agreement dated 14 March 2018 entered into among WFOE, Hope Education and its Registered Shareholders (the "**Exclusive Call Option Agreement**"), the Registered Shareholders unconditionally and irrevocably agreed to grant WFOE or its designated third party an exclusive option to purchase all or part of the equity interests in Hope Education for the minimum amount of consideration permitted by applicable PRC laws and regulations, under circumstances in which WFOE or its designated third party is permitted under PRC laws and regulations to own all or part of the equity interests of Hope Education. Where the purchase price is required by the relevant PRC laws and regulations to be an amount other than nil consideration, the Registered Shareholders shall return the amount of purchase price they have received to WFOE or its designated third party. WFOE has the sole discretion to decide when to exercise the option, and whether to exercise the option in part or in full.

As Zhuhai Maiwen became a shareholder of Hope Education after conversion of the Convertible Loan and thus a Registered Shareholder, on 22 June 2018, the WFOE, Hope Education and its Registered Shareholders entered into a second exclusive call option agreement (the "**Second Exclusive Call Option Agreement**"), which replaced and superseded the Exclusive Call Option Agreement in its entirety. Save for the date of and parties to the agreement, the terms and conditions of the Second Exclusive Call Option Agreement are substantially the same as those of the Exclusive Call Option Agreement.

(3) Equity Pledge Agreement

Pursuant to the equity pledge agreement dated 14 March 2018 entered into by and among WFOE, Hope Education and its Registered Shareholders (the "**Equity Pledge Agreement**"), the Registered Shareholders unconditionally and irrevocably offered first priority pledge over all of the equity interests in Hope Education to WFOE to guarantee (i) performance of the obligations of Hope Education, its subsidiaries and the Registered Shareholders under the Exclusive Management Consultancy and Business Cooperation Agreement; and (ii) performance of Hope Education and the Registered Shareholders' obligations under the Exclusive Call Option Agreement and the Powers of Attorney (as defined below). Under the Equity Pledge Agreement, the Registered Shareholders have agreed that, without the prior written consent of WFOE, they will not transfer or dispose the pledged equity interests or create or allow any third party to create any encumbrance on the pledged equity interests that would prejudice WFOE's interest.

As Zhuhai Maiwen became a shareholder of Hope Education after conversion of the Convertible Loan and thus a Registered Shareholder, on 22 June 2018, the WFOE, Hope Education and its Registered Shareholders entered into a second equity pledge agreement (the "**Second Equity Pledge Agreement**"), which replaced and superseded the Equity Pledge Agreement in its entirety. Save for the date of and parties to the agreement, the terms and conditions of the Second Equity Pledge Agreement are substantially the same as those of the Equity Pledge Agreement.

(4) Powers of Attorney

The Registered Shareholders have executed an irrevocable power of attorney dated 14 March 2018 appointing WFOE, or any person designated by WFOE (excluding non-independent persons who may give rise to conflicts of interests), as his or her attorney-in-fact to appoint directors and vote on his or her behalf on all matters of Hope Education requiring shareholders' approval under its respective articles of associations and under the relevant PRC laws and regulations. The power of attorney remains effective until the nullification or termination of the Exclusive Management Consultancy and Business Cooperation Agreement. As Zhuhai Maiwen became a shareholder of Hope Education after conversion of the Convertible Loan and thus a Registered Shareholder, on 22 June 2018, each of the Registered Shareholders has executed an irrevocable power of attorney, which replaced and superseded the powers of attorney executed by the Registered Shareholders on 14 March 2018 in their entirety. Save for the date of the powers of attorney, the terms and conditions of the powers of attorney dated 22 June 2018 are substantially the same as those dated 14 March 2018.

(5) Shareholders' Undertaking

Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司), West Hope, Wang Degen (王德根), Chen Yuxin (陳育新), Zhao Guiqin (趙桂琴), Zhang Qiang (張強), Tang Jianyuan (唐健源), Liu Birong (劉碧容), Wang Qiang (王強), Lan Hai (蘭海), Zeng Zheng (曾正), Zhou Xingbang (周興幫), Wang Xiaoguo (王孝國), Xiao Song (肖崧), Mei Shaofeng (梅紹鋒) gave an undertaking on 14 March 2018 and Wang Huiwu (汪輝武), Fu Wenge (付文革), Wang Degen (王德根) gave an undertaking on 14 March 2018 in favor of our Company and WFOE, to acknowledge and agree the Registered Shareholders to offer first priority pledge over all of their respective equity interests in Hope Education to WFOE (the "**Shareholders' Undertaking**"). Pursuant to Shareholders' Undertaking, each of the promisors does not and will not use their direct or indirect interests in the Registered Shareholders to make pledge, sale, other third party guarantees, other third party priority rights, or other disposals or transactions that have equal economic effects to affect the first priority pledge over interests in Hope Education to WFOE and the stability of the operation of contractual arrangements, nor he/she/it will directly or indirectly engage in, possess, invest, participate in or operate any businesses or activities which compete or might compete with Hope Education and its subsidiaries ("**Competing Businesses**") with any information obtained from Hope Education or its subsidiaries, or derive any benefits from any Competing Businesses.

As Zhuhai Maiwen became a shareholder of Hope Education after conversion of the Convertible Loan and thus a Registered Shareholder, on 22 June 2018, each of CEL Huiling (also being the general partner of Zhuhai Maiwen) and Yixing CEL executed an undertaking on 22 June 2018 in favour of our Company and WFOE to acknowledge and agree the Registered Shareholders (including Zhuhai Maiwen) to offer first priority pledge over all of their respective equity interests in Hope Education to WFOE (the "**Second Shareholders' Undertaking**"). The Second Shareholders' Undertaking replaced and superseded the Shareholders' Undertaking in its entirety. Save for the date of the undertaking, the terms and conditions of the Second Shareholders' Undertaking are substantially the same as those of the Shareholders' Undertaking.

Business Activities of Consolidated Affiliated Entities

Consolidated affiliated entities of the Group includes Hope Education and its subsidiaries (i.e. our schools and our education investment platforms). The principle business of Hope Education and our education investment platforms is higher education investment. Our schools mainly provide higher education services.

The Importance and Financial Contribution of the Consolidated Affiliated Entities to the Group

Under the contractual arrangements, our Group has obtained control of the consolidated affiliated entities through WFOE and, at our Company's sole discretion, can receive substantially all of the economic interest returns generated by the consolidated affiliated entities. The following table sets forth the financial contributions of the consolidated affiliated entities to the Group:

	The Importance and Financial Contribution to the Group		
	Income	Net profit	Total assets
	For the year ended 31 December 2018	For the year ended 31 December 2018	As at 31 December 2018
The importance and financial contribution to the Group	100%	161.05%	66.45%

Income and Assets Involved in the Contractual Arrangements

The following table sets forth the (i) income; and (ii) the total assets involved in the consolidated affiliated entities for the year ended 31 December 2018, which will be consolidated into the Group's financial statements in accordance with the contractual arrangements:

	Income	Assets
	RMB million	RMB million
Consolidated Affiliated Entities	1,029,523	5,509,353

Governing Framework

(1) Higher education

Pursuant to the Foreign Investment Industries Guidance Catalogue (Amended in 2017) (the "**Foreign Investment Catalogue**"), the provision of higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalogue explicitly restricts higher education institutions to Sino-foreign cooperation, which means that foreign investors may only operate higher education institutions through joint ventures with PRC incorporated entities that are in compliance with the Sino-Foreign Regulation. In addition, the Foreign Investment Catalogue also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of schools or education institutions shall be a PRC national; and (b) the representatives of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "**Foreign Control Restriction**"). On 28 June 2018, the National Development and Reform Commission of the PRC (中國國家發展和改革委員會) and Ministry of Commence of the PRC (中國商務部) jointly promulgated the Foreign Investment Access Special Management Measures (Negative List) (2018 Version) (《外商投資准入特別管理措施(負面清單) (2018年版)》) (the "**Negative List**"), which became effective on 28 July 2018 and replaced the Foreign Investment Catalogue. Under the Negative List, the restriction on foreign investments in higher education remain unchanged.

In relation to the interpretation of "Sino-foreign cooperation", pursuant to the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條例), promulgated by the State Council in 2003 and amended on 18 July 2013 (the "**Sino-Foreign Regulation**"), the foreign investor in a Sino-foreign joint venture school which provides higher education mainly for PRC students (a "**Sino-Foreign Joint Venture Private School**") must be a foreign educational institution with relevant qualification and high quality of education (the "**Qualification Requirement**"). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Field of Education and Promoting the Healthy Development of Private Education (教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "**Foreign Ownership Restriction**") and the establishment of these schools is subject to approval of education authorities at the provincial or national level. All of our schools are 100% held by PRC entities. Our PRC Legal Advisor is of the view that none of our schools is a Sino-foreign joint venture private school, nor are they subject to the Sino-Foreign Regulation, including the Foreign Control Restriction.

Our PRC Legal Advisor has advised that as at the date of this annual report, there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations, and it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience or form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant education authority that it meets the Qualification Requirement.

(2) Plan to comply with the Qualification Requirement

We have adopted a specific plan and have begun to take concrete steps which we reasonably believe are meaningful endeavors to demonstrate the compliance with the Qualification Requirement. For our efforts and actions taken to comply with the Qualification Requirement, please refer to "Contractual Arrangements" in the Prospectus. As at the date of this annual report, we are still awaiting the approval of The Bureau for Private Postsecondary Education for the establishment of a school in California, and in the process of searching for appropriate school premises as well as suitable management for the operation of the new university in California, the United States, with assistance from the U.S. Consultant. For taking the steps mentioned above, we incurred approximately US$70,000.

Our PRC Legal Advisor is of the view that while Sino-foreign cooperative schools are to be jointly established by both foreign and domestic educational institutions, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate that it meets the Qualification Requirement. Based on their understanding of the existing general provisions of the Qualification Requirement and the steps that we have undertaken as mentioned above, our PRC Legal Advisor is of the view that we are taking all reasonable steps towards fulfilling the Qualification Requirement.

Our PRC Legal Advisor has also advised that if the Foreign Ownership Restriction and the Foreign Control Restriction are both removed but the Qualification Requirement remains, we will be able to operate our schools in the PRC directly through Hope California in the event that Hope California gains sufficient foreign experience to satisfy the current Qualification Requirement and obtains approval from the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School.

We have undertaken to the Hong Kong Stock Exchange that we will:

- under the guidance of our PRC Legal Advisor, continue to keep ourselves updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirement; and
- provide periodic updates in our annual and interim reports after the Listing to inform our Shareholders of our efforts and actions undertaken with the Qualification Requirement.

(3) Foreign Investment Law

For details of the latest development of the Foreign Investment Law, please refer to "-Significant Events after the Reporting Period-Foreign Investment Law and its Impact on the Group and its Business Operation".

Risks in relation to the Arrangements and Actions Taken to Reduce Risks

Our wholly-owned subsidiary WFOE entered into the contractual arrangements pursuant to which it is entitled to receive substantially all of the economic benefits from our consolidated affiliated entities. We have been and are expected to continue to be dependent on our contractual arrangements to operate our education business. If the contractual arrangements that establish the structure for operating our China business are found to be in violation of any existing or future PRC laws, rules or regulations or fail to obtain or maintain any of the required permits or approvals, we may not be able to consolidate the results of operations of our consolidated affiliated entities. The relevant PRC regulatory authorities, including the MOE, would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of our PRC subsidiaries or consolidated affiliated entities;
- discontinuing or restricting the operations of any related-party transactions among our PRC subsidiaries or consolidated affiliated entities;
- imposing additional conditions or requirements with which we, our PRC subsidiaries or consolidated affiliated entities may not be able to comply;
- requiring us to undergo a costly and disruptive restructuring such as forcing us to establish new entities, re-apply for the necessary licenses or relocate our businesses, staff and assets;
- restricting or prohibiting our use of proceeds from public offering or other financing activities to finance our business and operations in China; or
- taking other regulatory or enforcement actions, including imposing fines, which could be harmful to our business.

The imposition of any of these penalties may result in a material and adverse effect on our ability to conduct our business in China and a loss of our economic benefits in the assets and operations of our consolidated affiliated entities. In addition, if the imposition of any of these penalties causes us to lose the rights to direct the activities of the consolidated affiliated entities or our right to receive its economic benefits, we would no longer be able to consolidate such entity. Such entity contributes substantially all of our consolidated net revenues.

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the contractual arrangements and our compliance with the contractual arrangements:

- major issues arising from the implementation and compliance with the contractual arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;

- our Board will review the overall performance and compliance with the contractual arrangements at least once a year;

- our Company will disclose the overall performance and compliance with the contractual arrangements in our annual reports;

- our Directors undertake to provide periodic updates in our annual reports regarding the qualification requirement as stipulated under "Contractual Arrangements - Background to the Contractual Arrangements" in the Prospectus and the latest development of the applicable laws and regulations as disclosed under "Contractual Arrangements - Development in PRC Legislation on Foreign Investment" in the Prospectus, including the latest relevant regulatory development as well as our plan and progress in acquiring the relevant experience to meet the qualification requirement; and

- our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the contractual arrangements, review the legal compliance of WFOE and our consolidated affiliated entities to deal with specific issues or matters arising from the contractual arrangements.

In addition, we believe that our Directors are able to perform their roles in our Group independently and we are capable of managing our business independently after the Listing under the following measures:

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

- each of our Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefits and in the best interests of our Company;

- we have appointed three independent non-executive Directors, comprising half of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of our Company and our Shareholders as a whole; and

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

Review the Transactions Carried Out during the Reporting Period in accordance with the Contractual Arrangements

Our independent non-executive Directors have reviewed the contractual arrangements and confirmed for the year ended 31 December 2018, that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the contractual arrangements, (ii) no dividends or other distributions have been made by our consolidated affiliated entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the consolidated affiliated entities during the relevant financial period are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of the Shareholders as a whole.

The Board has reviewed the overall performance and compliance of the contractual arrangements for the year ended 31 December 2018.

The auditor of the Group has reviewed the transactions carried out under the contractual arrangements in accordance with Hong Kong Standard on Assurance Engagements 3000 (revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and a letter has been sent to the Directors and a copy has been sent to the Hong Kong Stock Exchange to confirm that the transactions have been approved by the Directors and has been entered into in accordance with the relevant contractual arrangements and that no dividends or other distributions have been made by our consolidated affiliated entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

The Directors confirmed that the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules in respect of the contractual arrangements.

Material Changes

As of the date of this annual report, there is no material change in the circumstances on which the contractual arrangements and/or the adoption of the contractual arrangements are based.

Unwind the Contractual Arrangements

As of the date of this annual report, no contractual arrangements have been unwound and no circumstances occurred in which contractual arrangements could not be unwound in the event of cancellation of restrictions on the adoption of the contractual arrangements. For details, please refer to "Contractual Arrangements — PRC Laws and Regulations relating to Foreign Ownership in the Higher Education Industry — Circumstances in which we will unwind the Contractual Arrangements"in the Prospectus. If the regulatory environment in China changes and all Qualification Requirements are removed or we are able to meet the Qualification Requirements, and the Foreign Ownership Restriction and the Foreign Control Restriction are removed (assuming there are no other changes in the relevant PRC laws and regulations), our Company will be allowed to directly hold 100% of the interests in our schools and our Company will fully unwind the contractual arrangements and directly hold all equity interest in the schools. Our Company will also acquire rights to appoint all members to the board of directors of the schools.

LAND USE RIGHT CERTIFICATES, BUILDING OWNERSHIP CERTIFICATES AND FIRE CONTROL ASSESSMENT REQUIREMENTS

As of 31 December 2018, 11.49% of the total land used by our schools had not obtained the land use right certificates and the land transfer fee had not been paid. The lack of land use right certificates is due to the insufficient quota for the land for educational use as a result of government's zoning policies. The competent authorities are completing their internal procedures to modify the zoning policies and to issue the land use right certificates.

As of 31 December 2018, 55% of the total housing area of our schools had not yet obtained the building ownership certificates, primarily due to the lack of construction planning permit (建設工程規劃許可證), construction commencement permit (施工許可證) and acceptance inspection upon completion (竣工驗收), having not passed fire control assessment and/or environmental protection inspection assessment as required under relevant PRC laws and regulations. We have implemented extensive and comprehensive measures to rectify the above defects in our owned buildings and buildings under construction. We are in the process of applying to relevant government authorities for the relevant outstanding certificates and permits and are closely following up with the government authorities with respect to our applications.

As of 31 December 2018, we, as the tenant, leased six buildings used for office and education related purposes, and the relevant lease agreements had not been registered with relevant PRC government authorities.

In addition, as of 31 December 2018, some of our schools did not fully meet the regulatory requirements in terms of the teaching and administrative building area per student or the site area per student.

As of 31 December 2018, we were not aware of any actual or contemplated actions, claims or investigations by any government authorities or third parties against us with respect to the defects of the properties mentioned above. The Directors are of the view that the defects of our owned properties above will not have any significant and adverse effect on our operations and financial conditions as a whole.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2018 are presented in Note 31 to the consolidated financial statements. The Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

NON-COMPETE UNDERTAKING

Each of West Hope, Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司), Chen Yuxin (陳育新), Zhao Guiqin (趙桂琴), Zhang Qiang (張強), Wang Degen (王德根), Tang Jianyuan (唐健源), Liu Birong (劉碧容), Wang Qiang (王強), Lan Hai (蘭海), Zeng Zheng (曾正), Zhou Xingbang (周興幫), Wang Xiaoguo (王孝國), Xiao Song (肖崧), Mei Shaofeng (梅紹鋒), Wang Huiwu (汪輝武) and Fu Wenge (付文革), being our Controlling Shareholders, and their respective close associates undertake to our Company and WFOE as part of the contractual arrangements that, unless with the prior written consent of WFOE and Hope Education, so long as he/she/it remains a shareholder of Hope Education, each of the aforementioned Controlling Shareholders and their respective close associates will not directly or indirectly engage in, possess, invest, participate in or operate any businesses or activities which compete or might compete with the existing businesses of Hope Education and its subsidiaries ("**Competing Businesses**") for interests of itself or other parties, or engage in Competing Businesses with any information obtained from Hope Education or its subsidiaries, or derive any benefits from any Competing Businesses.

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

For details of the non-compete undertakings, please refer to "Relationship with Controlling Shareholders — Independence from Controlling Shareholders — Non-compete Undertaking" and "Relationship with Controlling Shareholders — Corporate Governance Measures" in the Prospectus.

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or any of their respective associates is engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

REMUNERATION POLICIES AND DIRECTORS' REMUNERATION

As of 31 December 2018, the Group had approximately 5,357 faculty members. Employee compensation includes salary, bonus and stock option schemes. The Group provides pre-employment training for new teachers to help new teachers integrate into the teaching staff faster and better. The remuneration packages of the Group's employees are determined by reference to individual qualifications, experience, performance, contribution to the Group and current market standards. In accordance with PRC laws and regulations, the Group participates in employee social security schemes managed by local governments for employees, including housing, pensions, medical insurance, maternity insurance and unemployment insurance.

The Nomination and Remuneration Committee is responsible for making recommendations to the Board on the remuneration policies and structure for all Directors and senior management as well as on the establishment of formal and transparent procedures for developing remuneration policies, taking into account the skills, knowledge and experience of the Board. None of the Directors shall determine his own remuneration.

The Directors and senior management may also receive options to be granted under the 2018 Pre-IPO Share Option Scheme. For further details of the 2018 Pre-IPO Share Option Scheme, see "2018 Pre-IPO Share Option Scheme" on page V-16 of the Prospectus.

Details of the emoluments of the Directors and the five highest paid individuals of the Group are set out in Note 8 and Note 9, respectively, to the consolidated financial statements in this annual report.

None of the Directors has waived any remunerations for the year ended 31 December 2018.

RETIREMENT AND EMPLOYEE BENEFIT PLANS

Details of the Company's retirement and employee benefit plans are set out in Note 2.3 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

Based on the public information available to the Company and to the best knowledge of the Directors, the Company has been maintained the public float as required by the Listing Rules as of the date of this annual report.

FINANCIAL SUMMARY

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

USE OF NET PROCEEDS

The net proceeds from the Listing (after deducting the underwriting fees and related expenses) amounted to approximately RMB2,704.86 million. As at 31 December 2018, the Group has utilized a total of RMB331.88 million of the net proceeds in accordance with the allocation set out in the Prospectus.

The following sets forth a summary of the utilization of the net proceeds:

Use	% of total	Net proceeds RMB (million)	Amount utilised (as at 31 December 2018) RMB (million)	Amount unutilised (as at 31 December 2018) RMB (million)
Used to acquire higher education schools and establish new campus for the acquired schools	40%	1,081.94	—	1,081.94
Used to construct new buildings for education purposes	30%	811.46	—	811.46
Used to repay bank loans and other borrowings	20%	540.97	275.80	265.17
Used for working capital and general corporate purposes	10%	270.49	56.08	214.41
Total	100%	2,704.86	331.88	2,372.98

The net proceeds from Listing not utilized by the Company amounts to approximately RMB2,372.98 million for the year ended 31 December 2018. For the unutillzed net proceeds for the year ended 31 December 2018, the Company intends to use them in the same manner and proportions as described in the Prospectus. The completion time of the use of the net proceeds will be determined based on the future business development of the Company.

TAX CONCESSION AND EXEMPTION

The Company is not aware of any tax concession and exemption granted to Shareholders by virtue of their holding of securities in the Company.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the Shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to the Shares, they are advised to consult an expert.

DIRECTORS' PERMITTED INDEMNITY PROVISION

According to the Memorandum and Articles of Association of the Company, each Director, auditor or other senior management of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or legal liabilities incurred or suffered by him as the Director, auditor or other senior management of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favor or in which he is discharged. During the year ended 31 December 2018, the Company has maintained appropriate liability insurance for directors and the management of the Group.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Guizhou College

For details of the Group's proposed acquisition of 100% interests in Chengdu Maysunshine Education Management Co., Ltd, please refer to "Management Discussion and Analysis - New Schools under Planning - Guizhou College" of this annual report.

The Foreign Investment Law and its Impact on the Group and its Business Operations

On 15 March 2019, the National People's Congress promulgated the Foreign Investment Law (外商投資法) (the "**FIL**"), which will take effect on 1 January 2020. The FIL will replace the existing laws regulating foreign investment in PRC, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law. The FIL embodies an expected regulatory trend in PRC to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments.

The FIL does not explicitly stipulate the contractual arrangements as a form of foreign investment. The FIL does not mention concepts including "de facto control" and "controlling through contractual arrangements" nor did it specify the regulation on controlling through contractual arrangements. Furthermore, the FIL does not specifically stipulate rules on the Relevant Businesses. Instead, the FIL stipulates that "foreign investors invest in PRC through any other methods under laws, administrative regulations, or provisions prescribed by the State Council". Therefore, as advised by the PRC legal Advisor, the contractual arrangements of the Group will not be affected under the FIL.

Nevertheless, there are possibilities that the implementing rules of the FIL (if any), future laws, administrative regulations or provisions of the State Council may stipulate contractual arrangements as a way of foreign investment, and then whether the contractual arrangements of the Group will be recognized as foreign investment, whether the contractual arrangements of the Group will be deemed to be in violation of the foreign investment access requirements and how the contractual arrangements of the Group will be handled are uncertain.

In addition, the FIL does not specify what actions shall be taken with respect to the existing companies with a VIE structure, whether or not these companies are controlled by PRC entities and/or citizens.

AUDITOR

At the forthcoming AGM, a resolution will be proposed to re-appoint Ernst & Young as the independent auditor of the Company.

By order of the Board
Hope Education Group Co., Ltd.
Chairman
Xu Changjun

Hong Kong, 22 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules to ensure that the Company's business activities and decision making processes are regulated in a proper and prudent manner.

The Board confirmed that the Company has complied with all code provisions as set out in the Corporate Governance Code from the date of the Listing to the date of this annual report.

THE BOARD

The names of the directors and the members of the committee established by the Board are as follows:

Executive Directors

Mr. Xu Changjun (徐昌俊) (Chairman, member of the Strategy and Development Committee)
Mr. Wang Huiwu (汪輝武) (Chief Executive Officer, chairman of the Strategy and Development Committee, member of the Nomination and Remuneration Committee)
Mr. Li Tao (李濤) (member of the Strategy and Development Committee)

Non-executive Directors

Mr. Wang Degen (王德根) (member of the Strategy and Development Committee)
Mr. Lu Zhichao (呂志超) (member of the Strategy and Development Committee, member of the Audit Committee)
Mr. Tang Jianyuan (唐健源) (member of the Audit Committee)

Independent non-executive Directors

Mr. Zhang Jin (張進) (chairman of the Audit Committee)
Mr. Chen Yunhua (陳雲華) (chairman of the Nomination and Remuneration Committee member of the Audit Committee)
Dr. Gao Hao (高皓) (member of the Audit Committee, member of the Nomination and Remuneration Committee)

All of the Directors are knowledgeable and have extensive experience in the business of the Group. The biographies of directors are set out in the section headed "Directors and Senior Management" in this annual report. As far as the Company is aware, there are no relationships among the members of the Board. The Company reviews the composition of the Board from time to time, to ensure that the Board has a balance of skills and experience appropriate to the Company's business, and the Board has a strong independent element to safeguard the interests of Shareholders.

DELEGATION BY THE BOARD

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

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

The Group regularly reviews the duties and powers delegated in the above manner to ensure that the duties and powers are still appropriate. The Board has also established an Audit Committee, a Nomination and Remuneration Committee and a Strategy and Development Committee to perform various duties delegated by the Board. Further details of these committees are set out below.

CORPORATE GOVERNANCE FUNCTIONS

The Board will also be responsible for the corporate governance functions of the Company, which include developing the policies and practices on corporate governance and comply with laws and regulations; monitoring the training and continuous professional development of Directors and senior management; developing the code of conduct and compliance manual applicable to directors and employees; and reviewing the compliance with the CG Code and review the disclosure in the Corporate Governance Report. The Board will continue to assess and commit to continuous development and improvement of the Group's corporate governance practices.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Since the date of the Listing and up to the date of this annual report, Mr. Xu Changjun served as the chairman of the Board and Mr. Wang Huiwu served as the chief executive officer. The chairman is responsible for the management of the Board, and the chief executive officer of the Company leads the day-to-day management of the Group's business. There is a clear and effective division of responsibilities between the chairman and the chief executive officer to ensure a balance of power and authority.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Articles of Association has established the procedures and processes for the appointment, re-election and removal of directors.

According to the Articles of Association, at each AGM of the Company, one-third of the directors shall retire by rotation and each director shall retire at least once every three years. The term of the newly appointed directors of the Board shall last until the next AGM of the Company and will then be eligible for re-election at the meeting.

Non-executive directors are appointed for a term of three years. All Directors are subject to retirement and re-election at the AGM at least every three years in accordance with the Articles of Association.

Pursuant to the Articles of Association, Mr. Li Tao, Mr. Tong Jianyuan and Mr. Lu Zhichao shall retire by rotation and, being eligible, have offered themselves for re-election at the AGM.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The roles of the independent non-executive Directors are to provide independent and objective advices to the Board and to provide sufficient constraints and balance to the Group, in order to safeguard the interests of the Shareholders and the Group as a whole. Independent non-executive directors actively participate in the Board and board committees, providing independent, constructive and informed advice.

The Company has received an annual written confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors, and the Company believes that all independent non-executive Directors have met the independence criteria set out in Rule 3.13 of the Listing Rules.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy to ensure that the Company will consider membership diversity in all aspects when determining the composition of the Board. The Company has established the following measurable objectives: the screening of candidates will be based on a number of aspects, including, among other things, age, culture and educational background, ethnicity, professional experience, skills and knowledge. However, the appointment of the Board will ultimately be determined on the basis of the value and contribution to the Board. The Nomination and Remuneration Committee oversees the implementation of the board diversity policy and will review the policy periodically to make any necessary updates.

In reviewing the structure, size, composition and diversity of the Board, the Nomination and Remuneration Committee has taken into account the measurable objectives as set out in the board diversity policy. The Nomination and Remuneration Committee is of the view that the diversity level of the Board is appropriate in terms of knowledge, experience and skills of the Directors. However, the Nomination and Remuneration Committee will continue to observe the Board Diversity Policy and consider potential candidates against the objective criteria set out in the board diversity policy in order to achieve increasing diversity at the Board level.

DIRECTORS' AND SENIOR MANAGEMENT'S INSURANCE

As at the date of this annual report, the Company has made appropriate insurance arrangements for potential legal proceedings against its Directors and senior management.

BOARD MEETINGS

According to the code provisions of the Corporate Governance Code, the board meetings shall be held at least four times a year, approximately every quarter, and at least 14-day notices shall be given for regular board meetings. The Board meets from time to time to discuss the Group's overall strategy, operations and financial performance. Directors may attend board meetings in person or through electronic communication.

The notices and agenda of the board meetings and the relevant documents were sent to the directors in time before the meeting.

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

During the year ended 31 December 2018, 4 board meetings and 4 general meetings were held and the attendance of each Director at these meetings is set out in the table below:

	Number of board meetings attended/held	Number of general meetings attended/held
Directors		
Executive Directors		
Mr. Xu Changjun	7/7	4/4
Mr. Wang Huiwu	7/7	4/4
Mr. Li Tao	7/7	4/4
Non-executive Directors		
Mr. Tang Jianyuan	7/7	4/4
Mr. Lu Zhichao	7/7	4/4
Mr. Wang Degen	7/7	4/4
Independent non-executive Directors		
Mr. Zhang Jin (appointed on 14 July 2018)	2/2	2/2
Mr. Chen Yunhua (appointed on 14 July 2018)	2/2	2/2
Dr. Gao Hao (appointed on 14 July 2018)	2/2	2/2

BOARD COMMITTEES

The Board has established three board committees (namely the Audit Committee, the Nomination and Remuneration Committee and the Strategy and Development Committee), to oversee the Company's affairs in all aspects. All board committees have established clear written terms of reference and report to the Board on their decisions or recommendations.

The board committees are provided with sufficient resources to perform their duties and may seek independent professional advices where appropriate when receiving reasonable requests. The relevant costs shall be borne by the Company.

AUDIT COMMITTEE

The Audit Committee was established on 14 July 2018 and consists of five members (namely Mr. Zhang Jin, Mr. Tang Jianyuan, Mr. Lu Zhichao, Mr. Chen Yunhua and Dr. Gao Hao), among them, Mr. Zhang Jin, Mr. Chen Yunhua and Dr. Gao Hao are independent non-executive Directors, and Mr. Tang Jianyuan and Mr. Lu Zhichao are non-executive Directors. Mr. Zhang Jin serves as the chairman of the Audit Committee, who has the appropriate professional qualifications and accounting and related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

The primary duties of the Audit Committee are as follows:

1. **Relationship with the Company's auditors**

   (a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

   (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee shall review and discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

   (c) to develop and implement policy on engaging an external auditor to supply non audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee shall report and make recommendations to the Board on any matters where action or improvement is needed;

2. **Review of the Company's financial information**

   (d) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in these statements and reports. In reviewing these statements and reports before submission to the Board, the Audit Committee shall focus particularly on:

      (i) any changes in accounting policies and practices;

      (ii) major judgmental areas;

      (iii) significant adjustments resulting from audit;

      (iv) the going concern assumptions and any qualifications;

      (v) compliance with accounting standards; and

      (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

3. **Oversight of the Company's financial reporting system, risk management and internal control systems**

   (e) to review the Company's financial controls, and unless expressly addressed by a separate risk committee under the Board, or by the Board itself, to review the Company's risk management and internal control systems;

   (f) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion shall include adequacy of resources, staff qualifications and experience, training programmes and the relevant budget of the Company's accounting and financial reporting function;

   (g) to consider major investigation results on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these results;

   (h) reviewing the Company's internal audit function, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

   (i) to review the Group's financial and accounting policies and practices;

(j) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

(k) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(l) to report to the Board on the matters set out in this Terms of Reference; and

(m) to consider other topics, as defined by the Board.

The unaudited financial results of the Group for the six months ended 30 June 2018 and the audited financial results for the year ended 31 December 2018 have been reviewed by the Audit Committee, and the Audit Committee considers that the relevant financial statements have been prepared in accordance with applicable accounting standards and requirements and have been fully disclosed. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and the selection and appointment of external auditors. In addition, the Audit Committee has reviewed the Group's internal controls and has monitored the Group's risk management and internal control systems.

During the year ended 31 December 2018, 2 meetings of the Audit Committee was held and the attendance of each director at the meeting is set out in the table below:

Members	**Number of Audit Committee meetings attended/held**
Non-executive Directors	
Mr. Tang Jianyuan	2/2
Mr. Lu Zhichao	2/2
Independent non-executive Directors	
Mr. Zhang Jin	2/2
Mr. Chen Yunhua	2/2
Dr. Gao Hao	2/2

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee was established on 14 July 2018 and consists of three members (namely Mr. Chen Yunhua, Mr. Wang Huiwu and Dr. Gao Hao), among them, Mr. Chen Yunhua and Dr. Gao Hao are independent non-executive Directors, and Mr. Wang Huiwu is an executive Director. Mr. Chen Yunhua serves as the chairman of the Nomination and Remuneration Committee. The primary duties of the Nomination and Remuneration Committee include, to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; to review the structure, size and composition (including the skills, knowledge and experience) of the Board regularly and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; to identify individuals suitably qualified to become Directors and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of independent non-executive Directors; to evaluate the balance of skills, knowledge and experience on the Board before appointments are made by the Board, and, in the light of this evaluation, preparing a description of the roles and capabilities required for a particular appointment; to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on establishing a formal and transparent procedure for developing remuneration policy; to review and approve senior management's remuneration proposals with reference to the Board's corporate goals and objectives; to review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment; to review the performance of duties by the Directors and senior management and to conduct annual performance appraisal; and to carry out other matters authorized by the Board.

The composition and written terms of reference of the Nomination and Remuneration Committee are in compliance with the provisions of the Corporate Governance Code. No meetings of the Nomination and Remuneration Committee were held during the year ended 31 December 2018.

DIRECTOR NOMINATION POLICY

Procedure for Nomination of Directors

1. When there is a vacancy on the Board, the Nomination and Remuneration Committee evaluates the balance of skills, knowledge, experience and characteristics of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an independent non-executive Director).

2. Prepare a description of the role and capabilities required for the particular vacancy.

3. Identify a list of candidates through personal contacts/recommendations by Board members, senior management, business partners or investors.

4. Arrange interview(s) with each candidate for the Nomination and Remuneration Committee to evaluate whether he or she meets the criteria adopted by the Nomination and Remuneration Committee for nomination of directors. One or more members of the Nomination and Remuneration Committee will attend the interview.

5. Conduct verification on information provided by the candidate.

6. Convene a Nomination and Remuneration Committee meeting to discuss and vote on which candidate(s) to nominate to the Board.

7. Make recommendations to the Board on the candidate(s) for directorship.

8. Convene a Board meeting to discuss and vote on which candidate(s) to appoint to the Board.

The Nomination and Remuneration Committee will refer to the following criteria when assessing candidates:

1. Reputation.

2. Achievements and experience in the education industry, especially in the private high education sector.

3. Time available.

4. Diversification of the Board, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and service tenure.

During the year ended 31 December 2018, the Company has appointed Mr. Zhang Jin, Mr. Chen Yunhua and Dr. Gao Hao as independent non-executive Directors in accordance with the above nomination procedures and reference criterias.

STRATEGY AND DEVELOPMENT COMMITTEE

The Strategy and Development Committee was established on 14 July 2018 and consists of five members (namely Mr. Wang Huiwu, Mr. Xu Changjun, Mr. Li Tao, Mr. Lu Zhichao and Mr. Wang Degen), among them, Mr. Wang Huiwu, Mr. Xu Changjun and Mr. Li Tao are executive directors, and Mr. Lu Zhichao and Mr. Wang Degen are non-executive directors. Mr. Wang Huiwu serves as the chairman of the Strategy and Development Committee. The primary duties of the Strategy and Development Committee include, but are not limited to, to review and make recommendations to the Board on our business objectives and strategic development plans; to evaluate factors which may affect our strategic development plans and their implementation, such as domestic and foreign economic and financial conditions, market and industry development trends and the relevant national policies on education institutions, and to make recommendations to the Board on adjustment to our strategic development plans in a timely manner; to supervise and inspect the implementation of annual and interim operation plans; to evaluate our corporate governance and making recommendations to the Board; and other matters required by laws, administrative regulations, departmental rules and authorized by the Board.

During the year ended 31 December 2018, 1 meeting of the Strategy and Development Committee was held and the attendance of each director at the meeting is set out in the table below:

	Number of Strategy and Development Committee meetings attended/held
Members	
Executive Directors	
Mr. Wang Huiwu	1/1
Mr. Xu Changjun	1/1
Mr. Li Tao	1/1
Non-executive Directors	
Mr. Wang Degen	1/1
Mr. Lu Zhichao	1/1

The Strategy and Development Committee reviewed the business objectives and development strategy plans of the Company; and, based on the domestic and international economic and financial situation, market and industry trends and national policies related to educational institutions, assessed the factors that may affect the Company's development strategy plans and its implementation.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

There are formal and transparent policy supports for the compensation of Directors. Directors are fairly paid and their compensation is commensurate with their experience, responsibilities, workload and performance as well as the Group's performance. No Director is involved in deciding his/her own compensation. Although the Company maintains a competitive remuneration level to attract and retain directors and operate the Company successfully, it strictly enforces the Directors' compensation policy and budgets carefully, and does not pay the Directors more than necessary.

Details of the remuneration paid or payable to the Directors for the year ended 31 December 2018 are set out in Note 8 to the consolidated financial statements.

The remuneration paid or payable to the members of the senior management for the year ended 31 December 2018, the biography of which are included in the section headed "Directors and Senior Management" of this annual report, are in the following ranges:

Remuneration band(s) (RMB)	Number of individual
500,000 to 1,000,000	2
1,000,000 to 2,000,000	5

MODEL CODE FOR SECURITIES TRANSACTIONS

On 14 July 2018, the Company adopted the Model Code as the Group's code of conduct governing the dealings in the securities by the directors and relevant employees. Upon specific enquiry, all directors confirmed that they have complied with the required standards as set out in the Model Code during the period from the date of the Listing and up to 31 December 2018.

CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

The Company periodically organises training courses for the Directors, senior management and staff, to develop and refresh their knowledge in areas related to their daily duties and the Group's business growth in a changing economic environment. For the year ended 31 December 2018, the Company's external legal advisor has provided training courses to all Directors in a wide range of topics, including the duties and responsibilities of the directors under the Listing Rules, the laws applicable to the Company, the Company's continuing compliance obligations, the disclosure requirements of price-sensitive information and directors' reporting responsibility under the Listing Rules and the Securities and Futures Ordinance, and the discloseable and connected transactions of listed companies. The Company also organised training courses with internal consultants with expertise in internal control and risk management as well as environmental, social and governance reporting. The executive Directors, senior management, financial department personnel and relevant personnel from operation and management departments participated in these training courses.

DIRECTORS' ACKNOWLEDGEMENT

The Board is responsible for presenting a balanced, clear and understandable assessment of the annual and interim reports, price sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018. The management provides the Board with the necessary explanations and information so that the Board can make an informed assessment and approve the financial and other information submitted to it. The Company provides monthly to the Board the latest information on the Company's performance, status and prospects.

The Directors are not aware of any material uncertainties relating to events or circumstances that may be of serious doubt about the Company's ability to continue as a going concern.

A statement by the Company's auditor on its reporting responsibilities to the Company's financial statements is set out in page 121 to page 126 of the Independent Auditor's Report in this annual report.

AUDITORS' REMUNERATION

For the year ended 31 December 2018, the professional fees paid or payable by the Group to the relevant auditor for the audit and non-audit services provided by the auditor of the Company, Ernst & Young, were as follows:

	RMB'000
Audit services	4,827
Non-audit service	116

JOINT COMPANY SECRETARIES

Ms. Leung Wing Han Sharon and Mr. Huang Zhongcai are joint company secretaries of the Company, whose biographies are set out in the section headed "Directors and Senior Management" of this annual report. Mr. Huang is a full-time employee of the Company and reports corporate governance matters to the chairman and chief executive officer of the Company.

Ms. Leung and Mr. Huang have received no less than 15 hours of training on corporate governance and other aspects during the year ended 31 December 2018. The main contact person of Ms. Leung Wing Han Sharon in the Company is Mr. Huang Zhongcai, one of the joint company secretaries of the Company.

RISK MANAGEMENT AND INTERNAL CONTROLS

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. The Board acknowledges its responsibility for maintaining a sound and effective risk management and internal control system and reviewing their effectiveness. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage significant risks in the Group's business.

The Board is primarily in charge of managing the overall risks of our Group. Significant business decision that involves material risk exposures, such as expansion of the school network into new geographic areas and to enter into cooperative business relationships with third parties to establish new schools, are subject to assessment and approval of the Board.

The Audit Committee is delegated with the responsibility to review the financial controls, risk management and internal control systems of the Group, to consider any major investigation findings on risk management and internal control matters and the response of the management to such findings. The Audit Committee also reviews the external independent auditor's management letter, any material query raised by the auditor about accounting records, financial accounts or systems of control and management's response. The Audit Committee reports to the Board on the matters considered by the Audit Committee and its recommendations to the Board.

The Company also has an internal audit function which primarily carries out the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Group and reports their findings to the Audit Committee and the Board. During the Reporting Period, the Company's internal audit department provided independent assurance as to the adequacy and effectiveness of the Company's risk management and internal control systems.

The Group's internal control system includes a well-established organizational structure with clearly defined lines of responsibility and authority. Each of our schools is managed on a day-to-day basis by its president, who is assisted by several vice presidents responsible for one or more specific aspects of our schools' operations. The board of directors of each of our respective schools is responsible for the overall management and decisions on matters that are significant to each of our schools. The board of directors, president and vice presidents of our schools are required to manage the operation of the schools within the scope of the delegated authority and to implement and strictly adhere to the strategies and policies set by the Company from time to time. They are also required to keep the executive Directors informed of the material development and to report on the implementation of the policies and strategies set by the Company on a regular basis. Each of our school has also designated the relevant personnel who will be responsible for monitoring the ongoing compliance with the relevant PRC laws and regulations that govern the business operations and overseeing the implementation of any necessary measures.

Each of our schools has appointed counsellors to serve as a bridge between students and colleges. Counsellors are students' primary contact for questions and concerns they may encounter in their school life, they provide support and guidance to the students and educate the various rules formulated by our schools. Counsellors also regularly inspect the student dormitories to ensure orderly, safe, clean and healthy living conditions for our students and help students with social and behavioural issues. Our schools have also implemented complaint channels and established a task force comprising of principal and head of school departments with a view to understanding, responding and resolving complaints from students.

The Group has formulated internal control system manuals on corporate governance, operations, management, legal matters, finance and auditing setting out the internal approval and review procedures pursuant to which our employees are mandated to comply with. The Group has also established a set of policies and procedures for property purchase and leasing arrangement and maintains insurance coverage which is in line with customary practice in the PRC education industry, including school liability insurance.

The Company is committed to build up an effective internal control and risk management systems. The Company has appointed Guotai Junan Capital Limited as the compliance adviser upon the Listing to advise on the on-going compliance with the Listing Rules. Additional personnel with professional experience and qualifications will be hired where necessary to support the expansion of our business operation. The Company will also engage external professional advisers to provide professional advice and guidance to our Group and to provide internal trainings to ensure our Directors and employees are kept up-to-date on any legal and regulatory developments.

The Group regulates the handling and dissemination of inside information according to the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012 to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made. The Company regularly reminds the Directors and employees about due compliance with all policies regarding the inside information.

As disclosed in the paragraph headed "Internal Control and Risk Management" in the "Business" section of the Prospectus, the Company engaged an independent internal control consultant (the "**Internal Control Consultant**") to conduct an assessment of our internal control system in September 2017. In response to the findings and recommendations of the Internal Control Consultant, the Company performed remedial actions prior to the Listing.

For the year ended 31 December 2018, the Board have conducted a review on the effectiveness of the risk management and internal control systems of the Group and considered the systems to be effective. Such review covered aspects including financial, operational and compliance controls and risk management functions. The Board will conduct a review on the effectiveness of the internal control and risk management systems of the Group in this year at least once in each financial year. The Board will also continually evaluate the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

COMMUNICATION WITH SHAREHOLDERS

The Company believes that effective communication with Shareholders is essential to enhance investor relations and investors' understanding of the Group's business performance and strategy. The Group also recognizes the transparency of its corporate information and the importance of timely disclosure of such information, which enables Shareholders and investors to make the best investment decisions.

The Company's website (www.hopeedu.com) plays as a communication platform with Shareholders and investors. The information and the latest developments of the Company's business development and operations and other information are available on this website for public inspection.

To facilitate communication between the Company and the investment community, the Company regularly conducts briefings and meetings with institutional investors and analysts as well as media interviews and roadshows, to provide the latest and comprehensive information of the Company.

SHAREHOLDERS' GENERAL MEETINGS

For the year ended 31 December 2018, the Company has held four general meetings. The Company will hold its first AGM on 28 May 2019. A notice of the Company's AGM to be held and a circular containing further details of the matters to be considered at the meeting, together with this annual report, will be sent to the Shareholders. The Company encourages Shareholders to attend the AGM and conduct face-to-face meetings with the Directors.

SHAREHOLDERS' RIGHTS

Nominate a Person for Election as a Director

In accordance with Article 16.4 of the Articles of Association, no person shall, except recommended by the Board for election, be eligible for election to the office of director at any general meeting, unless notice in writing of the intention to nominate that person for election as a Director and notice in writing by that person of his/her willingness to be elected have been sent to the Company Secretary. The period for lodgment of such notices will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting, and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

Shareholders who wish to nominate a candidate (the "**Candidate**") for election as a director at a general meeting shall submit a written notice (the "**Notice**") to the Hong Kong office of the Company. The Notice shall: (i) contain the biographical details of the Candidate as required under Rule 13.51(2) of the Listing Rules; and (ii) be signed by the relevant Shareholders and by the Candidate, indicating his/her willingness to stand for election and consent to publish his/her individual information.

The period for lodgment of such notices will commence from the day after the despatch of the notice of the general meeting and end no later than seven (7) days prior to the date of such general meeting. In order to give Shareholders sufficient time to consider the proposal on the candidate for election as a director, Shareholders who wish to make such proposal shall submit the notice as soon as practicable.

CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to Article 12.3 of the Articles of Association, any one or more Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, shall at all times have the right, by written requisition sent to the Hong Kong office of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. If, within 21 days from the date of the deposit of the requisition, the Board fails to proceed to convene such meeting, the requisitionists themselves may convene a meeting in the same manner, provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board to convene the meeting shall be reimbursed by the Company to the requisitionists.

SUBMIT A PROPOSAL AT GENERAL MEETINGS

Shareholders who wish to submit a proposal may request the Company to convene a general meeting in accordance with the procedure set out in the preceding paragraph, to consider the matters specified in the request.

SEND ENQUIRIES TO THE BOARD

Shareholders may send any of comments or enquiries by e-mails (ir@hopeedu.com) to the Board or by post to the Hong Kong office of the Company.

AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

The Company adopted the revised and restated Memorandum and Articles of Association of the Company on 14 July 2018, with effect from the Listing Date. The Company has made no changes to the Company's Memorandum and Articles of Association since its Listing. The latest version of the Company's Memorandum and Articles of Association are available on the Company's website and HKEXnews.

ESG REPORT

ABOUT THIS REPORT

Summary

This is the first Environmental, Social and Governance Report published by the Group. Based on the principles of objectivity, normativity, transparence and comprehensiveness, the report provides a detailed disclosure of the Group's practice and performance in areas such as environment, society and governance responsibility in 2018.

Basis of preparation

This report is prepared in accordance with *Environmental, Social and Governance Reporting Guide* (《環境、社會及管治報告指引》) set out in Appendix 27 of the Listing Rules of the Hong Kong Stock Exchange.

Scope of reporting

This report covers the Group and its affiliated undergraduate, junior college and technician colleges. The materials published and statistically reported in the Report are from 1 January 2018 to 31 December 2018, which are in line with the fiscal year covered by the Group's Annual Report.

Data sources and reliability guarantee

Sources of data used in the Report include the relevant internal statistical statements, administrative documents and reports of the Group. Our Board and senior management team have approved this Report and guaranteed that the Report is free of any false information, misrepresentation or major omissions.

Contact information

If you have any questions or feedback on this Report, please feel free to contact us by:
Email: ir@hopeedu.com
Official Website: www.hopeedu.com

RESPONSIBILITY MANAGEMENT

Responsibility Philosophy

As a nationally renowned private higher education group, the Group is committed to provide students with quality education and professional training. The Group always adheres to the integration of sustainable development into its core educational philosophy of “gratefulness, optimism, rigor and responsibility”, and sets about from all-around efforts such as school running, teaching, management and publicity to achieve a teaching service quality that satisfies “student care”, “class teaching”, “teaching and learning style”, “logistics service” and “employment”, thereby realizing the vision of “building the top brand of private higher education in China”. Meanwhile, to efficiently advance its environmental, social and governance works, the Group continuously improves its enterprise management framework, fully implements sustainable development initiatives and widely disseminates the concept of sustainable development.

Responsibility Structure

Establishing a complete environmental, social and governance (ESG) management framework is an important step for the Group to implement ESG management practice, by which it can put the objectives of sustainable development into daily practice. The ESG management framework of the Group consists of decision-making layer, executive layer and implementation layer. The decision-making layer represents members of the board of directors and is responsible for major decisions on ESG-related matters; the executive layer represents the ESG group established by the board of directors, and is responsible for the delivery of resolutions made by the decision-making layer and the report of work process and feedback from the implementation layer; the implementation layer is comprised of principals from each department and school, who are the practitioners of ESG works and are responsible to implement decisions made by the decision-making layer into daily practice.

Stakeholder Communication

The Group adheres to actively communicate with stakeholders to understand their demands and expectation. It is committed to safeguard the interest of stakeholders through improving the communication mechanism with stakeholders by establishing multiple channels. The stakeholders of the Group mainly include: investors/shareholders, teachers/employees, students parents, government and regulatory institutes, suppliers/partners and community public, etc.

Table of The Group Stakeholder Communication Methods

Stakeholders	Focus areas and demands	Communication methods
Investors/shareholders	Stable investment returns	General meeting
	Compliance operation and management	Announcement, news release and periodic report
	Sustainable development and risk control	Investor relations roadshow
Teachers/employees	Strengthen teachers' professional skills	Teacher/employee training
	Improve employee benefits	Internal teacher/employee evaluation
	Safeguard occupational health and safety	Internal exchange forum
	Promotion and development	We Chat/Email direct communication channel arranged by management
	Improve the teaching/working environment	
Students/parents	Teaching quality	Theme class meeting or lecture
	Campus life and social practice	Student satisfaction survey
	School safety and physical and mental health guarantee	We Chat/Email direct communication channel arranged by management
	Employment rate	
Government and regulatory institutes	Observe state laws and regulations	Irregular inspection
	Legal and compliance operation and management	Government communication
	Legitimately tax	Periodic report
Suppliers/partners	Fair competition and dealing	Supplier site visit
	Dealing with integrity	Supplier review
	Mutual benefit and long-term cooperation	Supplier exchange meeting
	Product quality assurance	
Community public	Community fusion	Community activity
	Public welfare projects	Public welfare activities
	Community return	Thanksgiving season activities
		Telephone hotline

Materiality Issue Management

In order to understand the ESG issues which the stakeholders concerned in a more professional and objective perspective, we have conducted the identification and significance evaluation on the Group's ESG issues during the preparation period of this Report. We selected 27 important issues in respect of ESG with reference to *Environmental, Social and Governance Reporting Guide* (《環境、社會及管治報告指引》) of the Hong Kong Stock Exchange, laws and regulations in education industry, the important topics in education industry identified by industry peers and the business scope of the Group.

For the sake of fully understanding the stakeholders' attention level to the abovementioned issues, we conducted a materiality assessment survey by way of anonymous questionnaire and received 658 valid questionnaire replies in total. The valid questionnaires cover stakeholders such as the Group management, teachers/employees, investors/shareholders, students/parents, government and regulatory institutes, suppliers/partners and community public. After comprehensive consideration of the self-operation and demands from stakeholders, we sorted each issue in two dimensions, namely "Importance to corporation" and "Importance to stakeholders", to form the ESG materiality matrix and lists. The final report on stakeholders' participation process and evaluation of issue importance has been submitted to the management for review, and has obtained recognition and approval.

Materality Analysis matrix on ESG Topics

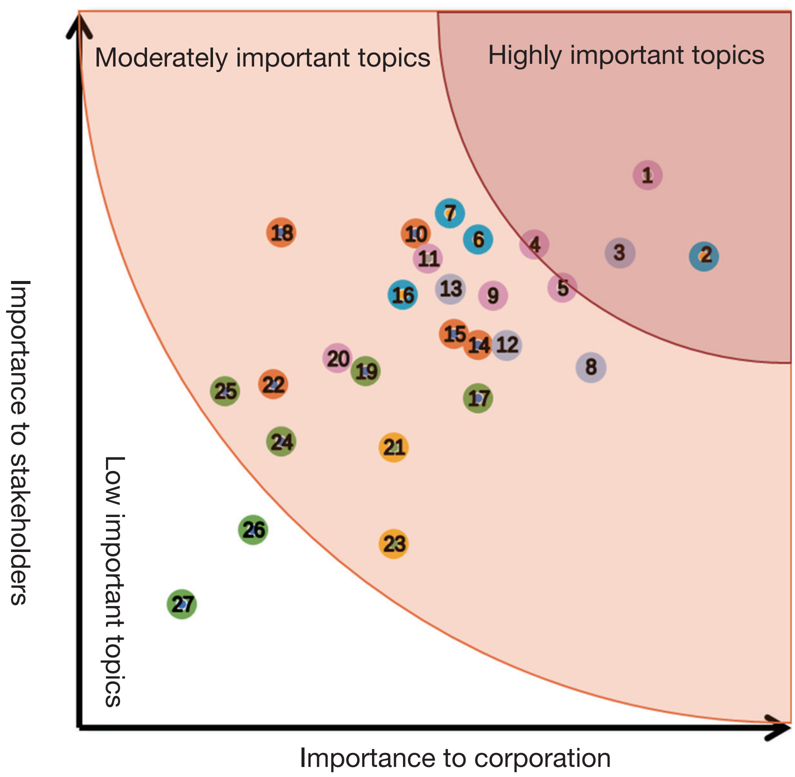


Table of The Group's ESG Important Issues List

Highly important issues	1	Teaching Quality
	2	Strengthen teachers' professional skills
	3	Enrich teaching sources
	4	Professional skill training adapts to market demand
Moderately important issues	5	Student safety and physical and mental health guarantee
	6	Employee remuneration and benefits
	7	Protect employee interest
	8	Develop and innovate teaching and research systems
	9	Student employment rate
	10	Risk management and internal control system construction
	11	Teaching courses, models and tools
	12	Innovative teaching model
	13	Whereabouts of graduates
	14	Protect privacy of students and parents
	15	Handle complaints from students and parents
	16	Employee training and education
	17	Green campus and green office
	18	Compliance operations and anti-corruption
	19	Pay attention to environmental treatment of sewage and waste
	20	Student campus life and social practice
	21	Educational universality
	22	Improve supplier management system
	23	Cultural protection and promotion
	24	Improve energy efficiency
	25	Popularize environmental concepts
Low important issues	26	Control greenhouse gas emissions
	27	Reduce water consumption

GOVERNANCE RESPONSIBILITY

Compliance Operation

The Group has a sophisticated centralized management model, which integrates expert management with self-management. To strengthen its regulated operational governance, the Group constructs a sound organizational structure, clarifies the positions and responsibilities of functional departments and coordinates the sharing of management and resources among schools. The senior management closely monitors the compliance with law and regulation related to business operation of the Company and schools and supervises the implementation of any necessary measures, ensuring that the Group strictly adheres to ethics and integrity and operates under related law and regulation on a sustainable development basis.

Anti-corruption

"Dedication and love, courtesy and honesty, integrity" is the standard for building a good teaching morality. Faculty and teachers of the Group abide by the relevant provisions in the *Company Law of the PRC* (《中華人民共和國公司法》), *the Anti-laundering Law of the PRC* (《中華人民共和國反洗錢法》), *the Anti-unfair Competition Law of the PRC* (《中華人民共和國反不正當競爭法》) and other relevant laws and regulations as well as industry norms and standards, and also formulate the Employee Handbook (《員工手冊》) to resist corrupt conducts, such as bribery, extortion, fraud and money laundering, set up integrity bottom line on all fronts and create an earnest working environment in the Company, thus safeguarding the healthy development of the Group.

The Group requires all faculty and employees to strictly stick to the integrity bottom line, and receive training and warning on related laws and regulation. We have organized teaching morality training for school teachers aiming at continuously improving the teachers' legal awareness and the awareness of legal teaching. In 2018, the Group held a lecture themed by *Prevention and Popularization of Employee Duty Crimes-better Life Coming From Legal Restraint* (《員工職務犯罪預防與普及——在法律的約束下讓人生更美好》) to create a great atmosphere of abiding by learning about implementing laws through comprehensive law education programs.

Meanwhile, in adherence to the principle of "openness, fairness and impartiality to every supplier", the Group has entered into *Integrity Agreement* (《廉潔協議》) with suppliers, pursuant to which, the Group are subject to public supervision of suppliers and opposed to commercial bribery. The agreement clearly stipulates the working discipline for purchasing personnel, and proposes that relevant purchasing personnel should not attend the feast held by suppliers, accept gifts, money and other bribes, or they would be dismissed immediately and subject to fines depending on the severity. In 2018, the Group did not have any corrupt conduct, such as bribery, extortion, fraud and money laundering that results in any significant lawsuit.

Intellectual Property Protection

The Group strictly abides by *the Intellectual Property Law of the PRC* (《中華人民共和國知識產權法》), *the Trademark Law of the PRC* (《中華人民共和國商標法》) and *the Advertisement Law of the PRC* (《中華人民共和國廣告法》) and completely eradicates false promotion. In 2018, the Group further strengthened the brand maintenance and construction, strictly regulated the intellectual property rights, including patents, copyright and trademark, and protected the brand and goodwill image through various means, such as dynamic monitoring, investigation, complaint and advise and litigation. Meanwhile, the Group uses authorized textbooks and relevant reference books during the procurement process to fully respect others' intellectual property rights and try our best to protect the legal rights and interests of others from infringement.

Privacy Protection for Students and Parents

The Group strictly complies with *the Consumer Protection Act of the PRC* (《中華人民共和國消費者權益保護法》) and formulates *the School Roll and Academic Credentials Administrative Measures* (《學籍學歷管理辦法》), stipulating that it is not allowed to provide relevant data on school roll without the consent of the person in charge of the academic affairs, except necessary work requirements of relevant posts. Meanwhile, we enter into *Confidentiality Agreement* (《保密協議》) with the staff involved in student privacy and information security, requiring them to comply with confidentiality clause, to prevent student personal data leakage and to protect the privacy and interests of students and parents from infringement. In 2018, the Group did not have any complaint or significant case on the leakage of personal data of students and parents.

EDUCATIONAL RESPONSIBILITY

Quality Education

New Educational Philosophy

Upholding the banner of "education is the foundation for coming generations", the Group takes "realizing the growth and success of students" as its essential function and original aspiration. The Group strives to provide comprehensive education solutions to students who are about to step into the society through various channels such as teaching quality enhancement, teaching model innovation, education resources diversification, and future-oriented education model development.

Focusing on the education industry, the Group comes up with several educational concepts such as "student-centered and employment-oriented school", "teacher-centered and quality-oriented education", "student and teacher-centered and service-oriented management" and "cultivation-centered and highlights-oriented promotion", covering fields including teaching, service, employment, education, and other fields closely bound up with talent cultivation. By putting forward abovementioned educational concepts, the Group injects energy and vitality into the education industry, offering education solutions that integrate quality education, service and cultivation.

Education Quality Improvement

The Group takes teaching work as its central work. We establish a Teaching Management Committee comprised of education experts to attain high quality education by improving teachers' ability, strengthening specialty construction, and innovating cultivation model. For teachers, the Group holds various activities and competitions to improve their teaching skills, experiment teaching skills and professional skills for the sake of cultivating talents proficient; for specialty construction, the Group promulgates *the Specialty Construction Administrative Measures* (《特色專業建設管理辦法》) and *the Quality Course Construction Administrative Measures* (《精品課程建設管理辦法》) to reinforce the support for featured and specialized curriculum, strengthen curriculum construction, reform teaching methods and improve teaching capability.

At the same time, the Group takes teaching supervision and assessment as an important link of closed-loop management for teaching quality improvement. In order to regulating teaching management, supervising and feedback, the Group formulated *the Management Measures for School Business Work Assessment* (《院校業務工作考核管理辦法》), and established a company-wide school supervision team in 2018 to evaluate teaching level, quality and methods. The supervision team participates in the teaching procedure quality inspection, evaluates teaching practice timely and comprehensively, monitors education quality and proposes reasonable suggestion for improvement.

Enrich Educational Resources

Cross-border cooperation among schools and enterprises has become a major trend in the education industry development. The Group fully integrates its own educational resources with related industry resources to promote establishment of the "industry and education integration" platform, and takes it as an important action for universities to deepen the cross-border cooperation between schools and enterprises, expand students' practical resources, broaden students' employment channels, and strengthen students' innovative practice capabilities.

In 2018, the schools under the Group actively strengthened application-oriented skills education, maintained good school-enterprise collaboration with JD.com, Haier, Samsung, Gree and other internationally renowned enterprises, to further improve students' employability.

Southwest Jiaotong University Hope College has maintained good school-enterprise cooperation with dozens of enterprises, including Chengdu Eighth Construction Engineering Co., Ltd., Sichuan Guojian Investment Co., Ltd., Chongqing Municipal Research Institution of Design, Chengdu Railway Transit Co., Ltd., China Railway Engineering Equipment Group Co., Ltd. Sichuan Vocational College of Culture & Communication has entered into agreements with five enterprises (such as Best Express Co., Ltd., Shanghai Haichang Ocean Park and Derun Hengtong Industrial Co., Ltd.), pursuant to which, the college has formulated school-enterprise talent cultivation plan and teaching procedures in accounting information management, e-commerce, marketing, hotel management and tourism management fields and has introduced enterprise project training into professional curriculum system and training system to cultivate innovative talents through industry-education integration. Ziyang Automobile Vocational College has worked closely with Faw-Volkswagen Automobile Co., Ltd., BYD Auto Co., Ltd. and other enterprises, Sichuan TOP IT Vocational Institute has established good cooperative relations with ITO YoKaDo Co., Ltd. and China Unicom. At the same time, Sichuan Tianyi College, Suning.com Group Co. Ltd. and Shanghai Baoye Installation Operation Co., Ltd. also carry out school-enterprise cooperation to improve the integration degree of talent cultivation and social demands and meet the demands of the state and society for scarce talents in emerging profession.

Picture of Cooperating Enterprises with the Group

Students' Potential Stimulation

The Group aims to build a complete quality and disciplinary systems to stimulate the student personality development, and to cultivate awareness of innovation and team spirit. In 2018, the Group continued to hold technology competitions and skill competitions, initiating patent application activities with voluntary participation and teacher guidance, undergraduate innovation and entrepreneurship projects, and other activities such as undergraduate and junior college education, higher vocational education and group cultural and recreational competitions. In 2018, under the leadership of instructors, students from the schools under the Group actively participated in various competitions on national, provincial and municipal levels, and won several national awards on areas including business, information technology, translation, mathematical modeling and logistics simulation design.

Picture of The Group's participation in a variety of competitions and a number of important awards obtained

Students' Satisfaction

The level of satisfaction of teachers and students in school management is an important criterion for assessing the school management and service level. The Group advocates the management mode of starting from the issue, with the principal of "multi-line parallel, timely communication, complementary information, and efficiency first", the Group establishes a comprehensive and effective mechanism for issue handling, and opens up channels for students and parents to express opinions. Students and parents can report issues through Weibo, WeChat, BBS of the school and direct contact with the Director. The Group classifies and distributes the issues to relevant institutions for handling, identifies responsible leaders and sets a deadline for rectification. In the meantime, the Group tracks the whole process, makes coordination between companies and departments, and reviews the actual handling of issues, so as to allow the real feedback from students and parents to be learned about quickly and conveniently, thus guiding the improvement direction for the Group. In 2018, the feedback rate of advisory was 100%, and there were no major complaints throughout the year of the Group.

Administrative Logistic Support

The Group considers students and teachers' health and safety as a top priority. To create a safe, healthy, civilized and harmonious school atmosphere, the Group formulates *the Logistics Management Measures* (《後勤管理辦法》), which stipulates strict management systems and rules on fields including facility safety, fire safety, food hygiene, vehicle safety and medical health. The Group strengthens emergency prevention and intervention in higher education institutions to reduce various types of security incidents risks.

Food Safety Guarantee

According to national laws and regulations including *the Food Safety Law of the PRC* (《中華人民共和國食品安全法》), *the Guidelines for Canteen Safety of Higher Education Institutions* (《普通高等學院食堂安全工作指南》) issued by Ministry of Education and *the Regulation on Hygiene Administration of School Canteens and Collective Dining of Students* (《學院食堂及學生集體用餐衛生管理規定》), and regulatory requirements of local government departments, the Group formulates strict food safety system, requiring all institutions to put the printed documents of *the Guidelines and Measures on Food Safety Management* (《食品安全管理準則與辦法》) on the wall and show canteen licenses, raw materials and their source as well as other information to the public for supervision. The Group supervises school canteen during the whole process to ensure food safety. Supervision stages includes procurement and storage of raw materials, staff management, food sample retention and tableware disinfection.

- **Raw material procurement:** The Group controls the source of food, and sets up a comprehensive management system for procurement of raw materials in the canteen. For example, packaged foods is required to provide a food hygiene license, food inspection certificate or test sheet; meats and poultries must have a vaccination certificate. The responsible personnel conducts spot check and supervision on raw materials, environment, processing, packaging and marketing of all foods in each school on a weekly basis, and creates a file for record;

- **Raw material storage:** The canteen warehouse is managed by the designated personnel and is locked during prescribed periods. Rules on classified placement and registration on storage is strictly implemented, "Three non" foods and rotten food or raw materials are prohibited. The warehouse must be clean to minimize the impact of storage environment on food hygiene;

- **Staff management:** The Group and its all schools shall check the pre-employment health certificate of all staffs, and regularly organizes health checkups for relevant staffs, to ensure that the canteen staffs meet the industry standard;

- **Sample management:** The canteen keeps samples of foods of each meal in a special refrigerator for 48 hours, and assigns personnel to record on *the Registration Form for Food Samples* (《食品留樣試嘗情況登記表》).

In the meantime, each school establishes Student Food Service Autonomous Management Committee. Student representatives supervise the matters such as food safety, food collocation and canteen environment, collects and reports opinions from students every week, so as to improve canteen management.

In addition, the Group regulates business scope and items of campus supermarket, strictly requires that required procedures and documents are completed (business license, tax registration certificate, food circulation permit and health certificate), and severely penalizes food safety issues which violates school regulations.

In 2018, in order to guarantee the health of all teachers and students in the college, Sichuan Tianyi College introduced "See Through Kitchens" program, and adopted the college's pioneering 4D management method (regional color, type identification, risk management, post responsibility). Sichuan Tianyi College was awarded with "Standardized College Canteen in Sichuan Province" after assessment and inspection by Expert Group from Sichuan provincial Department of Education Standardized College's Student Canteen.

Picture of "See Through Kitchens" Promotion Site at Sichuan Tianyi College

Picture of Standardized Canteen at Sichuan Tianyi College

Campus Security Guarantee

The Group attaches great importance to campus security management, and requires each college to establish a security leading group. The Group makes great efforts in fostering a sense of full participation to regulate employees' behavior and to prevent and reduce the occurrence of safety accidents, establishes corresponding safety management systems, formulates standards on fire management and medical health.

In respect of fire safety, according to the national laws and regulations including *the Fire Protection Law of the PRC* (《中華人民共和國消防法》), the Group formulates *the College Fire Management System*(《學院消防管理制度》) and *the Fire Control Room Management System* (《消防控制室管理制度》), and arranges the security personnel to check the fire prevention conditions under the third-level inspection requirements every day, to ensure that fire equipment are put in place; The Group makes special inspections on fire safety and equipment safety at key places such as dormitory, teaching building and training building. In addition, the Group formulates *the Fire Extinguishing and Emergency Evacuation Plan* (《滅火和應急疏散預案》) and conducts drills regularly, to improve the ability of teachers and students to prevent fire and their fire emergency escape ability.

In respect of medical treatment and health care, each college sets up an infirmary stationed by full-time doctors, and according to national laws and regulations, such as *the Emergency Regulations for Public Health Emergencies* (《突發公共衛生事件應急條例》) issued by the State Council, it formulates *the College Public Health Emergency Contingency Plan* (《學院突發公共衛生事件應急預案》), *the College Infectious Disease Prevention and Control Plan* (《學院預防與控制傳染病預案》), *the College Food Poisoning Emergency Contingency Plan* (《院校食品中毒應急預案》) and specifies regular drills for sudden illness suffered by teachers and students at school to eliminate the hidden risk of breakout of infectious diseases.

In order to strengthen teachers' and students' safety awareness, each college organizes education and trainings on healthcare and fire safety for teachers and students through propaganda showcase, radio and theme class meeting. Every semester, the Group invites local fire department to hold fire drilling and give knowledge lectures on fire fighting. The Group also regularly holds health education seminars and workshops to promote health, hygiene and disease prevention. With these efforts, the Group is committed to strengthen students' health awareness and self-care ability. In addition, the Group advocates scientific and healthy living habit through providing demonstration and guidance for teachers and students on site. In addition, the Group constantly pays attention to various adverse factors that jeopardize students' physical and mental health, such as campus loan, school bully, network safety, AIDS and drugs, and joins hands with the relevant regulatory authority to clear up and purify the environment of campus through campus bulletin and themed lectures.

Student Employment

Student employment is the "last mile" of school education. The Group formulates *the Administrative Measures for Employment* (《就業管理辦法》) to standardize the employment guidance for students and integrate student employment and student entrepreneurship. On one hand, the Group puts emphasis on enhancing students' professional proficiency and professional quality. On the other hand, with employment service and employment guidance as points of penetration, the Group provides employment consultation and guidance services for students through opening employment guidance optional courses and employment guidance lectures, actively explores employment channels through the cooperation with enterprises and universities, and establishes employment platform to vigorously improve graduate employability.

In 2018, by adhering to the concept of "providing support and help for student career development", Southwest Jiaotong University Hope College formed a sound working system and mechanism. By adhering to "full employment, full employment guidance, the system of job shadowing, expansion of job market, employment service information, personalization of employment targets and professionalism of employment guidance team", Sichuan TOP IT Vocational Institute created an employment management mode with process control and total involvement. Sichuan Tianyi College combined common employment with innovation and entrepreneurship activities, invited excellent alumni to share their employment and entrepreneurship experience, sought employment positions from other schools, organized and held various activities such as double selection events for graduates and enterprise recruitment fair, to create more employment opportunities for graduates through platform building and system development.

Picture of Double Selection Events for Graduates (畢業生雙選會)

SOCIAL RESPONSIBILITY

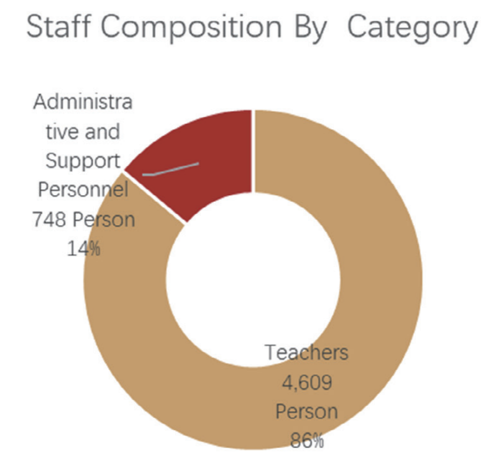
Staff Development

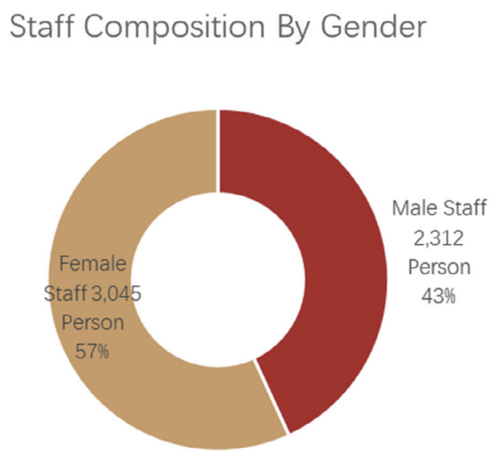
Protection of Staff's Interests

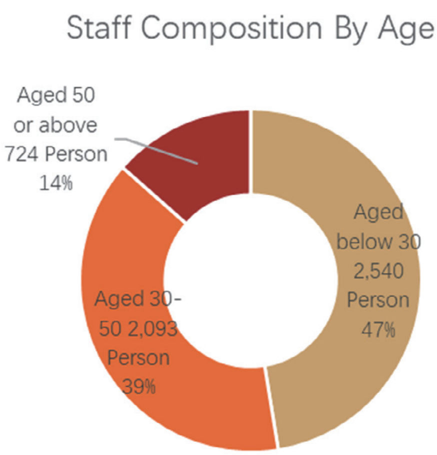
High quality faculty is the core competitiveness of the Group. The Group has, in strict compliance with *the Labor Law of the PRC* (《中華人民共和國勞動法》), *the Labor Contract Law of the PRC* (《中華人民共和國勞動合同法》), *the Provisions on the Prohibition of Using Child Labor* (《禁止使用童工規定》), *the Special Provisions on Labor Protection of Female Employees* (《女職工勞動保護特別規定》) and *the Regulation on Work Injury Insurance* (《工傷保險條例》) and other national laws, formulated *the Administrative Measures on Labor Contracts and Social Insurance* (《勞動合同和社會保險管理辦法》) to safeguard the legitimate interests of staff, restrain any form of discrimination, and strive to create a harmonious, fair and aspiring working environment.

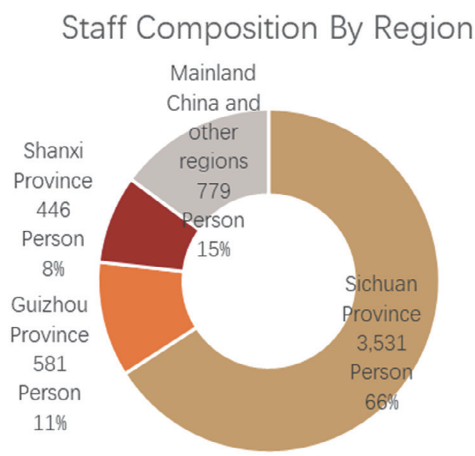
In order to regulate the talent recruitment mechanism for selecting suitable high-quality talents, the Group has formulated *the Administrative Measures on Employee Recruitment* (《員工招聘管理辦法》), which sets out the recruitment principles of "strict control, proper reserve, competency-position fit and merit-based enrollment, open recruitment and internal priority", to strictly prohibit the employment of child labor, examine the documents and information of employees during interviews and directly weed out those whose qualification or certificates are identified fake. Meanwhile, the Group has established *the Attendance Management System* (《考勤管理制度》) to regulate the working hours of faculty and prevent forced labor activities. *The Administrative Measures on Remuneration* (《薪酬管理辦法》) has been put in place to establish a scientific and reasonable remuneration system that conforms to the development of the Company.

During the Reporting Period, the total number of employees in the group was 5,357, and there was no case prejudicial to the interests of employees.









Unimpeded Development Channels

The Group ensures impartial and equal promotion opportunities for each staff. It has worked out *the Administrative Measures on Performance Incentives and Assessment of School Operations* (《院校業務工作激勵考核管理辦法》), regulating staff assessment and incentive mechanism, so as to promote their enthusiasm.

The Group highly values the cultivation of teaching teams and the strengthening of faculty, and keeps abreast of the reform of the professional and technical titles evaluation system of colleges and universities, encouraging teachers to actively apply for various titles. Meanwhile, the Group has formulated *the Measures for Implementation of Professional and Technical titles Evaluation* (《專業技術職稱評審實施辦法》) to carry out a comprehensive assessment on ideology and politics, academic qualification, computer application, teaching and scientific research level of the applicants, thus ensuring the fairness and justice of evaluation. The Group has developed channels for teachers whom are personally outstanding with excellent contribution, and promoted professional titles by breaking conventions, providing a better development platform for teachers who meet the requirements.

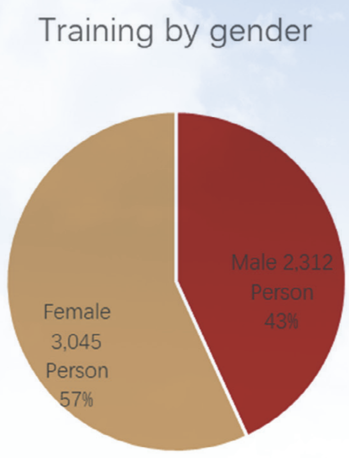
In April 2018, the Group launched the title assessment in colleges and universities in Sichuan by establishing a joint professional and technical titles assessment committee covering five colleges and various subject review panels. At the end of December, the Group had completed the assessment on medium-grade or senior professional titles in five colleges within the Group in Sichuan through joint efforts of these schools and the Education Management Committee. A total of 253 application materials were received, where 182 staffs passed the mid-grade assessment, 27 passed the sub-senior assessment and 2 passed the senior assessment. As a result, teacher's qualification structure of the Group has been effectively improved.

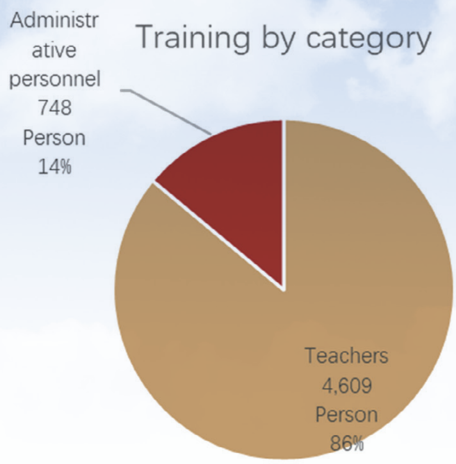
Enhancement of Teacher's Ability

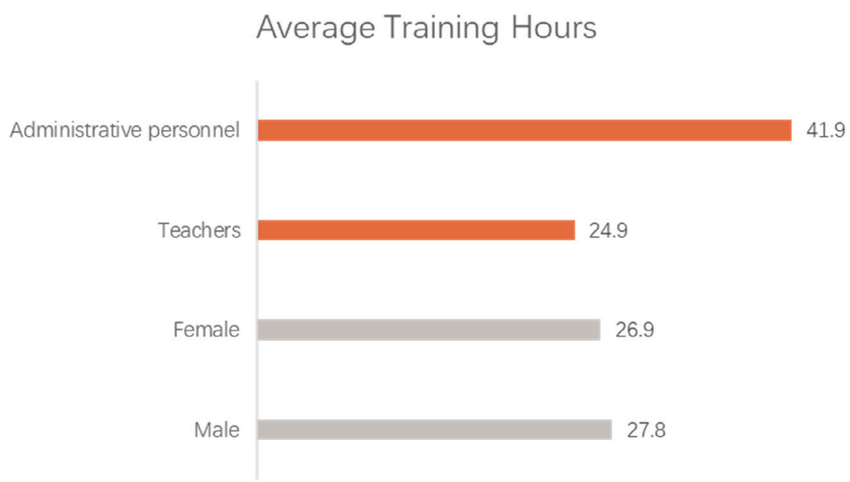
The Group attaches much importance to the development of teacher's ability. To enhance the overall quality and teaching standard of teachers, the Group has formulated *the Guidance on Strengthening the Building of Teaching Team of Higher Education Institutions within the Group* (《關於加強旗下高等院校師資隊伍建設的指導意見》) according to *the Teachers Law of the PRC* (《中華人民共和國教師法》), the *Regulation on Training Work for Teachers of Higher Education Institutions* (《高等學院教師培訓工作規程》) and other relevant laws and regulations. In accordance with the requirements of local educational regulatory authorities at all levels, and based on their own realities, the colleges have laid down *the Implementing Measures on Standardized Training Program* (《規範化培訓工作的實施辦法》), *the Training System of Teacher Posts* (《教師崗位培訓制度》) etc., which standardized management in many aspects, such as teachers' moral education, pre-job training, in-service training, on-the-job practice, academic exchange, tutor guidance and teaching. In order to improve the quality of teachers, the Group selected teachers to participate in special study and training programs organized by 13 colleges and universities including Beijing Institute of Technology and Sichuan Normal University in 2018, programs including "Leading Capacity Research Programs for Professional Leaders" and "Visit and Learning Programs for Outstanding Young Teachers", etc. During the Reporting Period, the Group's staff training coverage was 100%, with an average training duration of 27.3 hours.

The Group held regular professional analysis and communication activities among its colleges, promoting excellence in teaching through reviews in the purpose of assisting teachers to work out teaching planning, understand teaching proposals and grasp the meaning of teaching by virtue of experts' professional analysis. In addition, the Group organized competitions on experimental and practicing teaching skills for teachers, competitions on professional skills for teachers, so as to improve teaching and sharing experiences during competitions. Teachers were encouraged to lead students in participating in students' technology and skills competitions, thus realizing aspects that can improve in both teaching and learning.

In 2018, the teachers from the Group's colleges participated in nearly 100 competitions of all levels. A paper written by teachers of Sichuan Tianyi College, *Thoughts on Industry-teaching Integration for Art Design Major based on Five Connections* (《基於「五個對接」對藝術設計類專業產教融合的思考》), obtained the "First Prize of Outstanding Scientific Research Results in Education Class" awarded by Chinese Academy of Education, and the teachers from Sichuan Vocational College of Culture Media were granted international awards in the Chunchuan International Vocal Competition, as well as other dozens of national prizes in the fields of artwork, animation game design and graphic design.


Training by gender
Male 2,312 Person 43%
Female 3,045 Person 57%


Training by category
Administrative personnel 748 Person 14%
Teachers 4,609 Person 86%


Average Training Hours
Administrative personnel
41.9
Teachers
24.9
Female
26.9
Male
27.8

Care for Staff

Attracting and retaining talents, providing adequate care to staff, and creating a good working environment for them, are the foundation and pre-condition for the Group's stable development. The Group provides staff with good welfare benefits, including the payment of pension, medical, maternity and unemployment insurances and housing funds, and maintains supplemental medical insurance and commercial insurance. In addition, the Group also provides staff with birthday allowance, consolation money benefiting closed family members, physical check for significant abnormalities and reimbursement. The Group provides housing estates or apartments leased near campus sites to faculty to solve the problem of overlong commuting time, thus enhancing staff's satisfaction.

In order to improve the cohesion and sense of belonging of the teacher team, the Group's colleges have organized various sports and entertainment events irregularly, such as fun sports, mountain-climbing and outings, visit of old revolutionary areas, social gathering and etc., to enrich staff's leisure life.

Picture of Team Building for Staff of the Group

Harmonious Communities

Provision of Volunteer Support

While seeking for self-development, the Group persists in exploring the advantages of the education industry and its vocational colleges to serve the community, thus proactively fulfilling corporate social responsibility. In 2018, the Group invested an aggregate of RMB867,000.0 in charitable projects, with 12,808 volunteers including students expending a total of 620,184 hours.

– **Skills support:** Sichuan Hope Automotive Technician College has organized "One to One' Skills Support" training classes for Zoigê county, Aba Tibetan and Qiang Autonomous Prefecture, benefiting 34 filed poverty-stricken workers. The training classes offered vehicle repair professional courses and vocational quality courses for a total of over 2,400 hours. To ensure the effectiveness of training and support, the Technician College has selected the best teachers for training courses, bearing the living costs of all trainees, and organized them to relevant enterprises for pre-employment training and job placement, with the employment rate reaching over 95%. This skills support has realized the goal of "train one person, employ one person and alleviate poverty of one household" effectively, and lifted more local impoverished labor forces out of poverty through skills training.

– **Knowledge communication:** 44 college students from Southwest Jiaotong University Hope College have formed a poverty alleviation volunteer service team, going to four support teaching points in Sichuan disadvantageous areas, and bringing to children with knowledge. The Hope College has also donated over 1,000 books and 2 computers for Shangluokema Township, Luhuo County, Ganzi Prefecture, helping rural families to expand their field of vision.

– **Health inspection:** 18 students from Shanxi Medical University Jinci College have carried out five-day health inspection activities in Fanshi County, Xinzhou City. Those students proactively took part in the work of the health center of Shahe Town, Fanshi County, not only helped the health center to improve its health examination, but also participated in the targeted poverty alleviation and family doctors'"double contracting" poverty-relieved program by accompanying doctors of the health center to households of villagers, which guaranteed the health of villagers with such inspection.

Action of Volunteers from Guizhou Vocational Institute of Technology

Speech of Volunteers from Sichuan Vocational College of Culture & Communication

Support Teaching Team from Southwest Jiaotong University Hope College

A Lesson being Given by Volunteer Teacher

Volunteering Health Check

Picture of Volunteer Help Activities Conducted by the Group

Promoting of Cultural Integration

"Gratitude" is the core of the Group's corporate culture. "Grateful Season" is the Group's annual traditional activity to encourage gratefulness from the hearts of teachers and students with charitable acts all along. In 2018, nine colleges under the Group launched a variety of activities themed "gratefulness", including lectures, micro video creation, micro-film screenplay competition, as well as art, calligraphy, article soliciting, photography, recitation and singing competitions. Nearly 100 thousands of individuals were involved in those series of activities totaling several hundreds. In addition, Business College of Guizhou University of Finance and Economics, jointly with immigrant community of Mingtian new village, Huishui County, carried out "Jointly Realising Chinese Dream" series activities. Southwest Jiaotong University Hope College and Wufengsxi community jointly established practice bases for grateful education, to further strengthen volunteer service's function of educating people through practice. The Group organized university students to step into communities to personal growth by community service and contribution. The activities allow the volunteer spirit of "dedication, fraternity, mutual help and progress" comes into vogue.

Picture of 2018 Opening and Closing Ceremony of the Group's Fourth Grateful Season

Picture of Media Reporting on 2018 Fourth Grateful Season Activities of the Group

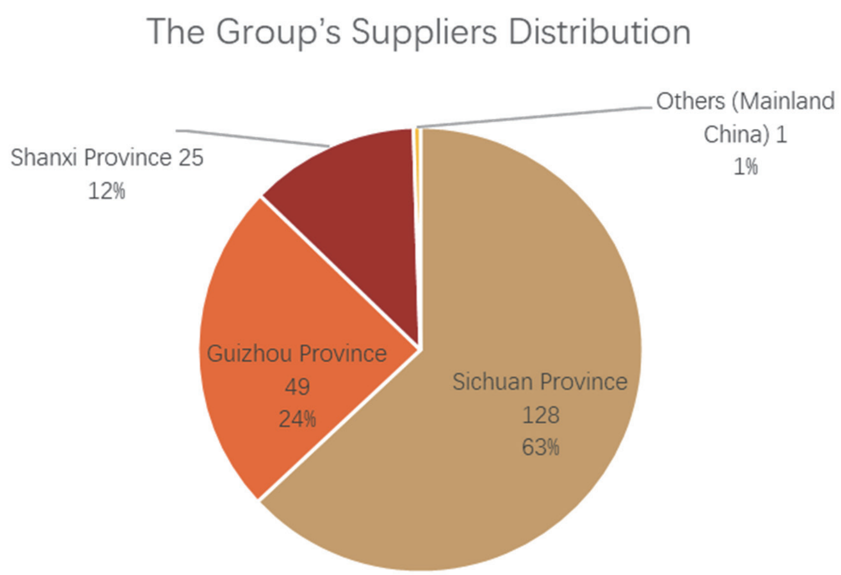
Supply Chain Management

The Group's major suppliers include goods, service, engineering and other enterprises. To ensure student safety and health at each link, the Group has formulated *the Management Rule of Procurement Department* (《採購部管理制度》) to regulate and to improve the procurement operation mechanism for procurement efficiency enhancement and capital utilization effectiveness.

To strengthen the monitoring and management of suppliers, the Group has worked out *the Supplier Management System* (《供應商管理制度》), establishing supplier database to implement unified management of commodity suppliers and supplier access system. At the same time, the Group assesses all qualified suppliers on a quarterly basis from four dimensions (product quality, price, delivery time and after-sales service), and divides suppliers into four levels of A-D. If a supplier is rated as A, the Group would give priority to its procurement. If a supplier being rated as D, the Group would directly eliminate it on supplier blacklist, and would not be accepted applications from blacklist within one year.

For engineering suppliers, the Group carefully reviews their qualification and project experience, then specifies the requirements for environmental protection, construction safety and labor protection for projects. The Group supervises the whole process during the construction of projects, and accepts the projects upon completion with feedbacks.

During the Reporting Period, the Group had 203 suppliers in total.



ENVIRONMENTAL RESPONSIBILITY

Environmental Management

The Group strictly complies with *the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》), *the Environmental Impact Assessment Law of the PRC* (《中華人民共和國環境影響評價法》), *the Energy Conservation Law of the PRC* (《中華人民共和國節約能源法》) and other national and local environmental regulations, by means of promoting and advocating the concept of environmental protection actively, not only imparting the knowledge of environmental protection in the course of education, but also incorporating the environmental concept and disseminating environmental awareness in teaching activities. By carrying out environmental protection seminars and environmental protection activities, the Group encourages initiatives within the entire organization, to join environmental protection activities, so as to build a green campus and perform its environmental protection responsibilities.

The education service industry where the Group operates is primarily involved with the following environmental impact: energy consumption, water resource consumption, office resource consumption, campus life wastes and three wastes (exhaust gas, wastewater and solid waste) discharge from canteen operation, without any use of packaging materials for products. The domestic sewage generated during daily operation is discharged through municipal sewage pipe networks to urban sewage plants for treatment, which has limited impact on the environment and natural resources, and there is no issue in sourcing suitable water.

Energy Saving

During the operations, the Group encourages all faculty to save energy and to reduce consumption in daily office work and travel for environmental protection purpose. In 2018, the Group set up energy consumption management targets and followed up the monthly energy consumption analysis table for refined management.

Each of the Group's colleges has implemented a daily energy registration system to monitor daily electricity and water consumption level and to rectify any abnormal situations once identified in a timely manner. We have changed office vehicles and school buses to electric vehicles, and strictly control the conditions and frequencies of the new energy vehicles. Decorative lights and garden lamps are switched off on the campus, except for special needs. The switch of street lights is adjusted timely according to the weather forecast on the day, utilizing to the maximum extent natural light, and half of the street lights are required to be switched off after 10:00 p.m. Lighting switches in public areas are changed to sound-control switches; and water-saving faucets are installed, etc. On one hand, the Group sets up a strict supervision and inspection system to make public departments which have taken inadequate measures to save resources, or individuals who have caused serious wasting of water and power. On the other hand, the Group standardized *the Equipment Maintenance and Management System* (《設備維修管理制度》) and, in the principle of "timely processing to reduce consumption", repair water and electricity facilities once any emission, dripping or leakage of the same identified. Furthermore, the Group actively promoted online repair system at each of its colleges to achieve more timely and efficient maintenance.

Picture of Electric Automobiles

In the management of fixed assets, the Group has formulated *the Management Measures on Fixed Assets* (《固定資產管理辦法》) in the principle of "rational allocation and enhanced utilization", which sets out provisions for the full cycle, from material application, transfer of new assets, continuous management of assets, checking of inventory, maintenance of assets to disposal of scrapped assets, in order to prevent waste of assets caused by improper management, as well as environmental pollution caused by random disposal of wastes. Meanwhile, the Group has put in place annual management objectives for consumables, and purchases office consumables, consumables for water and electricity repair, training consumables and activity consumables for each college on a unified basis for each term, and updates *the List of Inventory of Low-value Consumables* (《低值易耗品庫存盤點表》) on a weekly basis to track the usage.

Table of Energy and Resource Use

Index	Unit	2018 Data
Energy		
Total energy consumption	Tonne of standard coal consumption	3,909.5
Electricity consumption	kWh	28,042,517.4
Pipeline gas	m^3	1,296,768.0
Density of energy consumption	Tonne standard coal consumption per RMB1 million of revenue	3.8
Use of resource		
Office purchased paper	Tonne	5.6
Total used water	Tonne	1,869,366.0
Density of used water	Tonne per RMB1 million of revenue	1,815.8

Green Campus

The Group places emphasis on the construction of green campus to ensure a clean and tidy school environment. We classify recycling dustbins are put in place on the campus and keep the ground clean. The schools intersperse with high trees, shrubs, swards and fresh flowers throughout the year..

The Group has established a *Logistics Management System* (《後勤管理制度》) to strictly standardize the waste management of daily operation, including wastewater, exhaust gas and solid wastes. The colleges have carried out energy-saving transformation of cooking utensils and purging systems in their canteens that oil and water transmitters are installed to reduce and eliminate emissions of greasy dirt. External third party environmental protection companies are engaged to carry out standardized tests and assessments on the emission of cooking fumes for the canteens. Kitchen food wastes are collected, transported and disposed by qualified third parties. After unitedly collected and classified, campus garbage is subject to treatments by municipal waste treatment units. The abandoned lighting tubes and batteries are separately collected and dealt with by qualified third parties. In addition, a small amount of medical wastes are generated in college dispensaries, which are to be disposed by qualified third parties after volume record by doctors.

Table of Environmental Management

Index	Unit	2018 Data
Hazardous waste		
Abandoned lighting tubes	Piece	8,146
Used printer toner cartridges	Piece	99
Used batteries	Piece	3,476
Used toner boxes	Piece	35
Toner boxes recovered	Piece	48
Medical wastes	Tonne	0.6
Non-hazardous waste		
Total non-hazardous waste	Tonne	5,317.7
Kitchen garbage	Tonne	1,129.7
Domestic garbage	Tonne	4,188.0
Density of non-hazardous waste	Tonne per RMB1 million of revenue	5.2
Greenhouse gas emissions		
Total CO_2 emissions	Tonne	17,079.0
CO_2 emissions Scope 1	Tonne	300.6
CO_2 emissions Scope 2	Tonne	16,778.4
Density of greenhouse gas emissions	Tonne CO_2 per RMB1 million of revenue	16.6

APPENDIX ESG INDEX

ESG KPI	Guideline Requirements	Report section/statement
A1: Emissions	General Disclosure	Environmental Responsibility
	A1.1 The types of emissions and respective emissions data.	Not disclosed as the emissions are of little significance for the Group's operation.
	A1.2 Greenhouse gas emissions in total and, where appropriate, intensity.	Environmental Responsibility—Green Campus
	A1.3 Total hazardous waste produced and, where appropriate, intensity.	Environmental Responsibility—Green Campus Since hazardous waste is not counted by weight, intensity calculation is not applicable.
	A1.4 Total non-hazardous waste produced and, where appropriate, intensity.	Environmental Responsibility—Green Campus
	A1.5 Description of measures to mitigate emissions and results achieved.	Not disclosed as the emissions are of little significance for the Group's operation.
	A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Environmental Responsibility—Energy Saving As the Group released its ESG report in its first year, currently it is unable to disclose the amount of waste emissions reductions compared to last year.

ESG KPI	Guideline Requirements	Report section/statement
A2: Use of Resources	General Disclosure	Environmental Responsibility—Energy Saving
	A2.1 Direct and/or indirect energy consumption by type in total and, where appropriate, intensity	Environmental Responsibility—Energy Saving
	A2.2 Water consumption in total and, where appropriate, intensity.	Environmental Responsibility—Energy Saving
	A2.3 Description of energy use efficiency initiatives and results achieved.	Environmental Responsibility—Energy Saving As the Group released its ESG report in its first year, currently it is unable to disclose the amount of energy reductions compared to last year.
	A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Environmental Responsibility—Energy Saving No issue in sourcing water. As the Group released its ESG report in its first year, currently it is unable to disclose the amount of water reductions compared to last year.
	A2.5 Total packaging material used for finished products and with reference to per unit produced.	Not applicable. The Group does not use any product packaging materials during operation.

ESG KPI	Guideline Requirements	Report section/statement
A3: The Environment and Natural Resources	General Disclosure	Not disclosed as the impact on the environment and natural resources are of little significance for the Group's operation.
	A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Not disclosed as the impact on the environment and natural resources are of little significance for the Group's operation.
B1: Employment	General Disclosure	Social Responsibility—Staff Development
	B1.1 Total workforce by gender, employment type, age group and geographical region.	Social Responsibility—Staff Development
	B1.2 Employee turnover rate by gender, age group and geographical region.	Not disclosed
B2: Health and Safety	General Disclosure	Educational Responsibility—Administrative Logistics Support
	B2.1 Number and rate of work-related fatalities.	No work-related fatalities in 2018.
	B2.2 Lost days due to work injury.	Not disclosed
	B2.3 Description of occupational health and safety measures adopted, how they are implemented and monitored.	Educational Responsibility—Administrative Logistics Support

ESG KPI	Guideline Requirements	Report section/statement
B3: Development and Training	General Disclosure	Social Responsibility—Staff Development
	B3.1 The percentage of employees trained by gender and employee category.	Social Responsibility—Staff Development
	B3.2 The average training hours completed per employee by gender and employee category.	Social Responsibility—Staff Development
B4: Labour Standards	General Disclosure	Social Responsibility—Staff Development
	B4.1 Description of measures to review employment practices to avoid child and forced labour.	Social Responsibility—Staff Development
	B4.2 Description of steps taken to eliminate such practices when discovered.	Social Responsibility—Staff Development
B5: Supply Chain Management	General Disclosure	Social Responsibility—Win-win Cooperation
	B5.1 Number of suppliers by geographical region.	Social Responsibility—Win-win Cooperation
	B5.2 Description of practices relating to engaging supplies, number of supplies where the practices are being implemented, how they are implemented and monitored.	Social Responsibility—Win-win Cooperation

ESG KPI	Guideline Requirements	Report section/statement
B6: Product Responsibility	General Disclosure	Governance Responsibility—Compliance Operation Educational Responsibility—Quality Education
	B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable. The Group does not involve recalls for safety and health reasons during operation.
	B6.2 Number of products and service related complaints received and how they are dealt with.	Governance Responsibility—Compliance Operation Educational Responsibility—Quality Education
	B6.3 Description of practices relating to observing and protecting intellectual property rights.	Governance Responsibility—Compliance Operation
	B6.4 Description of quality assurance process and recall procedures.	Not applicable. The Group does not involve product quality inspection and recall during operation.
	B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	Governance Responsibility—Compliance Operation

ESG KPI	Guideline Requirements	Report section/statement
B7: Anti-corruption	General Disclosure	Governance Responsibility—Compliance Operation
	B7.1 Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Governance Responsibility—Compliance Operation
	B7.2 Description of preventive measures and whistleblowing procedures, how they are implemented and monitored.	Governance Responsibility—Compliance Operation
B8: Community Investment	General Disclosure	Social Responsibility—Harmonious Communities
	B8.1 Focus areas of contribution.	Social Responsibility—Harmonious Communities
	B8.2 Resources contributed of the focus area.	Social Responsibility—Harmonious Communities

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

To the shareholders of Hope Education Group Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hope Education Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 127 to 215, 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, the consolidated statement of changes in equity and the 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(Continued)*

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Preferential tax treatment	
As set out in note 10 to the financial statements, according to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. No corporate income tax was provided on the income from the provision of formal education services by the Group's private schools in the People's Republic of China (the "PRC Private Schools"), which have elected to be private schools require reasonable returns. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, the PRC Private Schools did not pay corporate income tax for the income from formal educational services and has enjoyed the preferential tax treatment since their establishment. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the year.	The audit procedures included the following: • Discussed with management to evaluate their interpretation of the tax laws and their assessment of the tax obligations of the schools operated by the Group for the current year; • Evaluated management's assessment on the application of preferential tax or applicable tax rate to the respective schools; • Examined the historical tax filing returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, where appropriate; • Discussed with the Group's external PRC legal advisors to understand their view with respect to the interpretation of the existing applicable laws which would have impact on the applicable tax on the respective schools; • Assessed any new policies, regulations or rules that have been introduced by the authorities, which might have an impact on the tax position taken by the Group up to the date of this report; and • Involved our internal tax specialist to assist us in assessing the uncertainties arising from the preferential tax treatment enjoyed by the Group's schools.

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Preferential tax treatment (Continued) There were significant judgements involved in management's analysis and assessment, such as the assessment on the possible outcome of the tax provision based on historical experiences and interpretation of the relevant tax laws and regulations in respect of the preferential tax treatment enjoyed by the PRC Private Schools. The Group's disclosures about the income tax are included in Note 3 and Note 10 to the financial statements.	
Impairment of goodwill The Group recorded a significant amount of goodwill of RMB481 million as at 31 December 2018. Management has performed an annual impairment test on the recoverability of goodwill as required by IAS 36. No impairment charge has been recorded against goodwill in the current year. Certain assumptions used in the impairment review were subjective and involved significant judgements and estimates, and they included: • the future cash flow growth assumptions used in the Group's most recent budgets for the next five years approved by the board of directors, including future industry development, pricing strategies, market supply and demand, and EBIT; • the growth rate used beyond the period covered by the budgets; and • the discount rate applied to future cash flows. The accounting estimates and disclosures related to the impairment assessment of goodwill are included in Note 3 and Note 15 to the financial statements.	In order to evaluate the impairment test carried out by management and assess the value-in-use of the cash-generating unit, we performed the following procedures: • Evaluated management's future cash flow forecasts and the process by which they were drawn up; • Assessed the actual performance in the year against the prior year budgets to evaluate historical forecasting accuracy; • Analysed the key assumptions adopted by management, such as the growth rates of students, tuition and boarding fees and expenses during the forecast periods by checking to the historical trend and industry index; • Performed sensitivity analyses on the forecasts; • Involved our internal valuation specialists to assist us in evaluating the methodologies and key valuation parameters used by the Group and the discount rate used by comparing to the industry index; and • Evaluated the adequacy of the Group's disclosures regarding goodwill impairment testing.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS 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 IFRSs issued by the IASB 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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.

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

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

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

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

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

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

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

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

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

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

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

The engagement partner on the audit resulting in this independent auditor’s report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants

Hong Kong
22 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	5	1,029,523	752,434
Cost of sales		(562,286)	(392,405)
Gross profit		467,237	360,029
Other income and gains	5	211,510	136,384
Selling expenses		(20,804)	(29,140)
Administrative expenses		(267,452)	(88,929)
Other expenses		(27,965)	(2,656)
Finance costs	6	(201,172)	(144,511)
Share of losses of a joint venture		(1,858)	(1,752)
Profit before tax	7	159,496	229,425
Income tax credit/(expense)	10	7,841	(19,769)
Profit for the year		167,337	209,656
Other comprehensive income for the year		—	—
Total comprehensive income for the year		167,337	209,656
Profit and total comprehensive income attributable to:			
Owners of the Company		167,916	211,712
Non-controlling interests		(579)	(2,056)
		167,337	209,656
Earnings per share attributable to ordinary equity holders of the Company:	12		
Basic		RMB0.030	RMB0.043
Diluted		RMB0.028	RMB0.042

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,448,267**	3,195,358
Prepaid land lease payments	14	**590,015**	594,873
Goodwill	15	**481,143**	481,143
Other intangible assets	16	**133,596**	118,700
Prepayments, deposits and other receivables	17	**466,225**	18,019
Investment in a joint venture		**—**	142,790
Total non-current assets		**5,119,246**	4,550,883
CURRENT ASSETS			
Prepayments, deposits and other receivables	17	**128,729**	121,492
Amounts due from related parties	31(c)	**4,314**	732,824
Financial assets at fair value through profit or loss	19	**—**	8,241
Cash and cash equivalents	18	**3,038,905**	181,332
Total current assets		**3,171,948**	1,043,889
CURRENT LIABILITIES			
Contract liabilities	5	**590,785**	535,268
Other payables and accruals	20	**637,459**	731,682
Deferred income	21	**9,407**	8,456
Interest-bearing bank and other borrowings	22	**526,680**	613,986
Amounts due to related parties	31(c)	**52,953**	154,999
Taxes payable		**34,053**	53,670
Total current liabilities		**1,851,337**	2,098,061
NET CURRENT ASSETS/(LIABILITIES)		**1,320,611**	(1,054,172)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,439,857**	3,496,711

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	21	658,083	629,457
Interest-bearing bank and other borrowings	22	1,605,052	1,265,461
Deferred tax liabilities	25	10,154	10,677
Composite instrument	23	—	628,990
Liability of a put option granted to a shareholder	24	—	276,153
Other payable	20	6,416	6,585
Total non-current liabilities		2,279,705	2,817,323
NET ASSETS		4,160,152	679,388
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	454	—
Reserves	28	4,156,816	649,464
		4,157,270	649,464
Non-controlling interests		2,882	29,924
Total equity		4,160,152	679,388

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company								
	Issued capital RMB'000 (note 26)	Share premium* RMB'000 (note 26)	Capital reserve* RMB'000 (note 28)	Statutory surplus reserve* RMB'000 (note 28)	Share option reserve* RMB'000 (note 27)	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017	—	—	108,332	128,959	—	225,703	462,994	31,980	494,974
Profit and total comprehensive income for the year	—	—	—	—	—	211,712	211,712	(2,056)	209,656
Transfer from retained profits	—	—	—	45,941	—	(45,941)	—	—	—
Deemed distribution to an equity holder (note 23)	—	—	(25,242)	—	—	—	(25,242)	—	(25,242)
At 31 December 2017 and 1 January 2018	—	—	83,090	174,900	—	391,474	649,464	29,924	679,388
Issue of new shares	3	—	—	—	—	—	3	—	3
Capitalization issue of new shares	337	—	—	—	—	—	337	—	337
Issue of new shares for the Initial Public Offering ("IPO")	114	2,785,710	—	—	—	—	2,785,824	—	2,785,824
Profit and total comprehensive income for the year	—	—	—	—	—	167,916	167,916	(579)	167,337
Transfer from retained profits	—	—	—	59,321	—	(59,321)	—	—	—
Disposal of a subsidiary	—	—	—	—	—	—	—	(26,463)	(26,463)
Equity-settled share option arrangement	—	—	—	—	122,345	—	122,345	—	122,345
Conversion of the convertible bond (note 23)	—	—	233,428	—	—	—	233,428	—	233,428
Transfer from the liability of a put option granted to a shareholder (note 24)	—	—	281,908	—	—	—	281,908	—	281,908
Share issue expenses	—	(83,955)	—	—	—	—	(83,955)	—	(83,955)
At 31 December 2018	454	2,701,755	598,426	234,221	122,345	500,069	4,157,270	2,882	4,160,152

* These reserve accounts comprise the consolidated reserves of RMB4,156,816,000 in the consolidated statement of financial position as at 31 December 2018 (2017: RMB649,464,000).

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Profit before tax		**159,496**	229,425
Adjustments for:			
Depreciation	7	**136,537**	100,684
Recognition of prepaid land lease payments	7	**15,082**	10,333
Amortisation of other intangible assets	7	**9,051**	10,450
Government grants released	5	**(8,662)**	(7,759)
Bank interest income	5	**(27,795)**	(2,389)
Interest income from loans to an independent third party	5	**(23,552)**	—
Finance costs	6	**201,172**	144,511
(Gains) /losses on disposal of items of property, plant and equipment, net	5,7	**21,914**	(32,353)
Gain on disposal of a subsidiary	5	**(8,256)**	—
Fair value gains of a conversion right of the convertible bond	5	**(13,271)**	(6,253)
Equity-settled share option expense	7,27	**122,345**	—
Interest income from related parties	5	**(27,577)**	(16,969)
Share of losses of a joint venture		**1,858**	1,752
Fair value gains on financial assets at fair value through profit or loss		**—**	(188)
Gains on disposal of financial assets at fair value through profit or loss		**(2,174)**	(9,814)
Unrealised foreign exchange gain		**(5,171)**	—
		550,997	421,430
Decrease in accounts receivable		**—**	177
(Increase) /decrease in prepayments, deposits and other receivables		**50,234**	(15,835)
Increase in amounts due from related parties		**71,136**	6,594
Decrease in contract liabilities		**55,517**	71,664
Increase/(decrease) in amounts due to related parties		**4,813**	(15,295)
Increase in other payables and accruals		**67,132**	32,306
Cash generated from operations		**799,829**	501,041
Bank interest received		**21,815**	2,389
Corporate income tax and land appreciation tax paid		**(19,211)**	(2,774)
Net cash flows from operating activities		**802,433**	500,656

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(623,882)	(924,771)
Additions to other intangible assets	(23,534)	(6,491)
Additions to prepaid land lease payments	(12,349)	(3,376)
Payment for acquisition of a non-controlling interest of a subsidiary	—	(30,000)
Refundable deposit related to proposed equity acquisition	(30,000)	—
Payments for acquisitions of subsidiaries in prior years	(15,000)	(750,318)
Proceeds from disposal of items of property, plant and equipment	27,022	27,250
Proceeds from disposal of prepaid land lease payments	—	8,457
Decrease/(increase) in amounts due from related parties	643,394	(4,072)
Decrease in pledged deposits	—	156,882
Receipt of government grants	38,239	54,709
Receipt of loans to related parties	—	534,758
Loan to an independent third party	(447,670)	—
Increase in time deposits with original maturity of over three months	(450,000)	—
Investment in a joint venture	—	(50,000)
Disposal of a subsidiary	69,608	—
Proceeds from disposal of financial assets at fair value through profit or loss	8,241	11,951
Investment income from financial assets at fair value through profit or loss	2,174	9,814
Interest income received from related parties	44,546	—
Net cash flows used in investing activities	(769,211)	(965,207)

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowings	1,999,619	2,050,947
Repayment of bank and other borrowings	(1,740,215)	(1,843,500)
Proceeds from issue of convertible bonds	—	600,000
Redemption of convertible bonds	(400,000)	(15,000)
Interest paid	(195,087)	(154,651)
Proceeds from issue of shares for the IPO	2,786,161	—
Prepaid transaction fee	—	(7,119)
Share issue expenses	(81,298)	—
Loans from related parties	100,000	150,000
Repayment of loans from related parties	(100,000)	(277,410)
Net cash flows from financing activities	2,369,180	503,267
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,402,402	38,716
Cash and cash equivalents at beginning of the year	181,332	142,616
Effect of foreign exchange rate changes, net	5,171	—
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	2,588,905	181,332
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents as stated in the consolidated statement of financial position (note 18)	3,038,905	181,332
Time deposits with original maturity of over three months	(450,000)	—
Cash and cash equivalents as stated in the consolidated statement of cash flows	2,588,905	181,332

1. CORPORATE AND GROUP INFORMATION

Hope Education Group Co., Ltd. (the "Company") was incorporated in the Cayman Islands on 13 March 2017 as an exempted company with limited liability under the laws of the Cayman Islands. The registered office address of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company's principal place of business in Hong Kong is located at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the provision of higher education services in the People's Republic of China (the "PRC").

The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 August 2018 (the "Listing Date").

In the opinion of the directors of the Company (the "Directors"), the parent and the ultimate holding company of the Company is Hope Education Investment Limited ("Hope Education Investment"), which is incorporated in the British Virgin Islands.

Pursuant to the group reorganization (the "Reorganization") as set out in paragraph headed "Reorganization" in the section headed "History and Corporate Structure – Corporate Reorganization" in the Prospectus dated 24 July 2018 for the public listing of the Company's shares on the Stock Exchange, the Company became the holding company of the companies now comprising the Group on 14 March 2018.

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Entity name	Date and place of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Hope Education Group (Hong Kong) Co., Ltd. 希望教育集團(香港)有限公司	10 March 2017 Hong Kong	HK$1	100%	—	Investment holding
Horgos Tequ Mayflower Information Technology Co., Ltd. ("WFOE") 霍爾果斯特驅五月花信息科技有限公司(i)	19 January 2018 PRC/Mainland China	RMB50 million	—	100%	Provision of technical management and consultancy services
Sichuan Hope Education Industry Group Limited ("Hope Education") 四川希望教育產業集團有限公司(ii)	12 January 2005 PRC/Mainland China	RMB50 million	—	100%	Investment holding
Sichuan Tequ Mayflower Education Management Co., Ltd. ("Tequ Mayflower") 四川特驅五月花教育管理有限公司(i)	8 April 2018 PRC/Mainland China	RMB50 million	—	100%	Sale of text books, and dormitory bedding
Southwest Jiaotong University Hope College 西南交通大學希望學院(ii)	16 July 2009 PRC/Mainland China	RMB300 million	—	99.67%	Provision of higher education services
Business College of Guizhou University of Finance and Economics 貴州財經大學商務學院(ii)	4 September 2014 PRC/Mainland China	RMB50 million	—	100%	Provision of higher education services
Jinci College of Shanxi Medical University 山西醫科大學晉祠學院(ii)	18 January 2006 PRC/Mainland China	RMB5 million	—	100%	Provision of higher education services
Sichuan Vocational College of Culture & Communication 四川文化傳媒職業學院(ii)	22 September 2005 PRC/Mainland China	RMB20 million	—	100%	Provision of higher education services
Sichuan Tianyi College 民辦四川天一學院(ii)	18 June 2002 PRC/Mainland China	RMB23,309,508	—	100%	Provision of higher education services
Guizhou Vocational Institute of Technology 貴州應用技術職業學院(ii)	12 June 2016 PRC/Mainland China	RMB20 million	—	100%	Provision of higher education services
Sichuan Hope Automotive Vocational College 四川希望汽車職業學院(ii)	24 June 2013 PRC/Mainland China	RMB20 million	—	100%	Provision of higher education services

1. CORPORATE AND GROUP INFORMATION *(Continued)*

Information about subsidiaries *(Continued)*

Particulars of the Company's subsidiaries are as follows:

Entity name	Date and place of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Sichuan Hope Automotive Technician School 四川希望汽車技師學院(ii)	23 January 2017 PRC/Mainland China	RMB20 million	—	100%	Provision of higher education services
Taiyuan Xudong Technology Limited 太原旭東科技發展有限公司(ii)	10 February 2004 PRC/Mainland China	RMB10 million	—	100%	Investment holding
Sichuan Yonghe Education Investment Limited 四川永和教育投資有限公司(ii)	31 May 2002 PRC/Mainland China	RMB20 million	—	100%	Investment holding
Shanghai Shurui Investment Consultant Limited 上海舒瑞投資諮詢有限公司(ii)	29 February 2008 PRC/Mainland China	RMB10 million	—	100%	Investment holding
Fuquan Mayflower Education Investment Limited 福泉五月花教育投資有限公司(ii)	18 September 2012 PRC/Mainland China	RMB5 million	—	100%	Investment holding
Ziyang May Sunshine Education Investment Limited 資陽五月陽光教育投資有限公司(ii)	9 November 2012 PRC/Mainland China	RMB5 million	—	100%	Investment holding
Sichuan Guojian Investment Limited 四川省國建投資有限公司(ii)	27 October 2004 PRC/Mainland China	RMB60 million	—	100%	Investment holding
Sichuan TOP Education Co., Ltd. ("Top Education") 四川托普教育股份有限公司(ii)	28 June 2000 PRC/Mainland China	RMB150 million	—	100%	Investment holding
Sichuan TOP IT Vocational Institute 四川托普信息技術職業學院(ii)	22 April 2000 PRC/Mainland China	RMB5 million	—	100%	Provision of higher education services

Notes:

(i) WFOE and Tequ Mayflower are registered as wholly-foreign-owned enterprises under PRC law.

(ii) These entities and sponsoring schools are controlled through contractual arrangements ("Structured Contracts") and they are collectively referred to as "Consolidated Affiliated Entities".

The English names of certain companies or schools established in the PRC represent the best effort made by the management of the Company to directly translate the Chinese names as they do not register any official English names.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2018, including IFRS 15 and IFRS 9, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the financial statements throughout the financial years ended 31 December 2017 and 2018.

These financial statements have been prepared under the historical cost convention, except for certain financial assets at fair value through profit or loss and the conversion right of the convertible bond which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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.

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Definition of a Business*[2]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after 1 January 2021

4 No mandatory effective date yet determined but available for adoption

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs *(Continued)*

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

Amendments to IFRS 3

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

IFRS 16 *Leases*

IFRS 16 replaces IAS 17 *Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

2.2 ISSUED BUT NOT YET EFFECTIVE IFRSs *(Continued)*

IFRS 16 *Leases* *(Continued)*

The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB149,682,000 and lease liabilities of RMB149,682,000 will be recognised at 1 January 2019.

Amendments to IAS 1 and IAS 8

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in joint ventures

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

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in joint ventures *(Continued)*

The Group's share of the post-acquisition results and other comprehensive income of joint ventures is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of joint ventures is included as part of the Group's investments in joint ventures.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations and goodwill *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

When the acquisition of subsidiaries does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognised.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial assets at fair value through profit or loss and derivative financial instruments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the year.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the year as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	1.9% to 9.5%
Motor vehicles	24.3%
Furniture and fixtures	9.7% to 19.4%
Devices and equipment	9.7% to 33.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents fixed assets under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill) *(Continued)*

Software

Purchased software is stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of 2 to 10 years.

Cooperation arrangements to operate independent colleges

Cooperation arrangements to operate independent colleges purchased or acquired through the acquisition of subsidiaries that do not represent a business combination, are stated at cost less any impairment losses. They are amortised on the straight-line basis over their estimated useful lives of 20 to 30 years by reference to the contractual terms as stipulated in the cooperation arrangements, which represent the contractual period to operate each of the Group's colleges.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Initial recognition and measurement (Continued)

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Financial assets at fair value through profit or loss (Continued)

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include other payables, amounts due to related parties, derivative financial instruments and interest-bearing bank and other borrowings.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the consolidated statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The conversion option of convertible bonds exhibits characteristics of an embedded derivative is separated from the liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. The initial fair value of the liability component and derivative component exceeded the consideration received is debited to the equity. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

Financial liability arising from the put option granted to a shareholder

Put option granted to a shareholder is accounted for as a financial liability and is recognised initially at fair value and subsequently measured at amortised costs until the expiry of the option or extinguished on redemption. The fair value of the put option granted to a shareholder is determined at the present value of the equity redemption amount. If the option expires without redemption, the carrying amount of the financial liability is reclassified to equity.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the year, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

The Group' revenue from the provision of formal educational services is in consideration of fixed amounts of tuition and boarding fees, which are recognised when the specific criteria have been met for the following activities:

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Tuition and boarding fees from the provision of formal education received from students are generally paid in advance prior to the beginning of each academic year, and are initially recorded as contract liabilities. Tuition and boarding fees from the provision of formal education 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 a contract liability and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within one year. The academic year of the Group's schools is generally from September to August of the following year.

Tuition fees from the provision of other education services, including self-study examination education services, adult education services and training services to the students are collected in advance on a lump sum basis. Revenue is recognised proportionately over the relevant period of the applicable program.

Other income

(a) Interest income

Interest income from a financial asset is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(b) Rental income

Rental income is recognised on a time proportion basis over the lease terms.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of the year until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payments *(Continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries and schools which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries and schools are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Housing fund

Contributions to a defined contribution housing fund administered by the Public Accumulation Funds Administration Centre in Mainland China are charged to profit or loss as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared. In the event that the interim dividends are paid out of the share premium account, shareholders' approval at an extraordinary general meeting is needed. When these interim dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currencies. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Structured Contracts

The Consolidated Affiliated Entities are engaged in the provision of education services, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are restricted to invest in such business.

Due to regulatory restrictions on foreign ownership in the schools in the PRC, the Group conducts a substantial portion of the business through the Consolidated Affiliated Entities. WFOE, a wholly-owned subsidiary of the Company, has entered into the Structured Contracts with, among others, the Consolidated Affiliated Entities and their respective equity holders. The Structured Contracts enable WFOE to exercise effective control over the Consolidated Affiliated Entities and obtain substantially all economic benefits of the Consolidated Affiliated Entities. Accordingly, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries and they are consolidated in the consolidated financial statements.

The Company does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Structured Contracts, the Company has 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 and is therefore considered to have control over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the Consolidated Affiliated Entities in the financial statements during the year.

Income tax

Significant judgement is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact tax expense in the period when such determination is made.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty

The key assumptions concerning the future and other 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, are described below:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB481,143,000 (2017: RMB481,143,000). Further details are given in note 15 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end the year. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in the production and provision of services, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of the year based on changes in circumstances. Further details of the property, plant and equipment are set out in note 13 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of higher education services in the PRC.

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the Directors, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance, does not contain discrete operating segment financial information and the Directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented other than the entity-wide disclosure.

Entity-wide disclosure

Geographical information

During the year, the Group operated within one geographical location because all of its revenue was generated in the PRC and all of its long-term assets/capital expenditures were located/incurred in the PRC. Accordingly, no geographical information is presented.

Information about major customers

No service provided to a single customer contributed to 10% or more of the total revenue of the Group during the year.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the values of services rendered after deducting scholarships and refunds during the year, all of which represented the revenue from customers.

An analysis of revenue from contracts with customers is as follows:

(a) Disaggregated revenue information

	Note	2018 RMB'000	2017 RMB'000
Type of services			
Tuition fees		**854,281**	620,694
Boarding fees		**85,403**	63,412
Others	(i)	**89,839**	68,328
		1,029,523	752,434

	2018 RMB'000	2017 RMB'000
Timing of revenue recognition		
Services transferred over time	**1,029,523**	752,434

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

The performance obligations of the services are satisfied over time as the services are rendered in each academic year or training period and advances are required before rendering the services.

Changes in contract liabilities during the year are as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**535,268**	388,981
Revenue recognised that was included in the contract liabilities at 1 January	**(534,154)**	(388,981)
Increase due to cash received, excluding amounts recognised as revenue during the year	**589,671**	535,268
Carrying amount at 31 December	**590,785**	535,268

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

(b) Performance obligations *(Continued)*

The Group recognised the following revenue-related contract liabilities, which represented the unsatisfied or partially unsatisfied performance obligation as at the year end:

	2018 RMB'000	2017 RMB'000
Within one year	**589,814**	534,154
More than one year	**971**	1,114
Total contract liabilities	**590,785**	535,268

The performance obligations expected to be recognised in more than one year relate to the provision of formal education services that are paid in advance that will be satisfied within two years. All the other remaining performance obligations are expected to be recognised within one year.

The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The students are entitled to the refund of payments in relation to the proportionate services not yet rendered.

The increase in contract liabilities at 31 December 2018 was mainly due to the increase of students enrolled in 2018.

There were no contract assets recognised at the end of the year.

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

An analysis of other income and gains is as follows:

	Notes	2018 RMB'000	2017 RMB'000
Other income			
Government grants			
– related to assets	21	8,662	7,759
– related to expenses	(ii)	17,856	8,914
Interest income from bank balances		27,795	2,389
Interest income from loans to related parties	31	27,577	16,969
Interest income from loans to an independent third party		23,552	—
Rental income		17,561	16,458
Service income	(iii)	45,349	30,132
Donation income		391	431
Gain on exchange differences, net		8,569	—
Guarantee income	(iv)	2,267	1,057
Others		6,743	3,647
		186,322	87,756
Gains			
Gains on disposal of items of property, plant and equipment		1,487	32,373
Fair value gains of a conversion right of the convertible bond	23(b)	13,271	6,253
Fair value gains on financial assets at fair value through profit or loss		—	188
Gains on disposal of financial assets at fair value through profit or loss		2,174	9,814
Gain on disposal of a subsidiary		8,256	—
		25,188	48,628
Total other income and gains		211,510	136,384

5. REVENUE, OTHER INCOME AND GAINS *(Continued)*

Notes:

(i) During the year, others mainly represent income received from the provision of other education service, including self-study examination education services, adult education services and training services to the students, which was amortised within the training periods of the service rendered.

(ii) Government grants related to expenses represent the subsidies compensated for the incurred operating expenses arising from teaching activities, which are recognised as other income in profit or loss when received. There were no unfulfilled conditions or contingencies relating to these grants.

(iii) During the year, service income mainly represents income derived from granting the rights of canteen and convenient store operations to independent third party operators; and income from services provided to students related to purchase of text books, dormitory bedding and exam material.

(iv) During the year, guarantee income represents a fee received by the Group in respect of the provision of bank loan guarantees to related parties (note 31(b) (iv)). The guaranteed bank loans had been repaid during the year and the guarantees were released accordingly.

6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings	**162,988**	122,775
Increase in the discounted amount of payables arising from the passage of time (notes 20, 23 and 24)	**46,306**	25,105
Total interest expense for financial liabilities that are not at fair value through profit or loss	**209,294**	147,880
Less: interest capitalised (note 13(b))	**(8,122)**	(3,369)
	201,172	144,511
Interest rate/capitalisation rate of borrowing costs capitalised	**4.75% to 6.3%**	4.0%

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	2018 RMB'000	2017 RMB'000
Employee benefit expense:			
Wages and salaries		262,733	169,624
Equity-settled share option expense	27	40,464	—
Pension scheme contributions (defined contribution scheme)		53,223	36,802
		356,420	206,426
Management fees	(i)	112,059	92,688
Depreciation	13	136,537	100,684
Recognition of prepaid land lease payments	14	15,082	10,333
Amortisation of other intangible assets	16	9,051	10,450
Marketing and advertising costs		8,393	18,214
Listing expenses		33,679	9,843
Minimum lease payments under operating leases		27,599	21,041
Auditors' remuneration		4,827	—
Equity-settled share option expense	27	81,881	—
Losses on disposal of items of property, plant and equipment		23,401	20

Note:

(i) During the year, management fees represented the annual fees payable to the universities where the Group had entered into cooperation agreements to operate independent colleges. Management fees are charged based on a certain percentage of tuition fees received or receivable by the Group.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 RMB'000	2017 RMB'000
Fees	974	—
Other emoluments:		
Salaries, allowances and benefits in kind	149	534
Equity-settled share option expense	2,903	—
Pension scheme contributions	—	—
	3,052	534
	4,026	534

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 27 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018 RMB'000	2017 RMB'000
Mr. Zhang Jin	54	—
Mr. Chen Yunhua	54	—
Mr. Gao Hao	54	—
	162	—

Messrs. Zhang Jin, Chen Yunhua and Gao Hao were appointed as independent non-executive directors of the Company on 2 February 2018.

There were no other emoluments payable to the independent non-executive directors during the year (2017: N/A).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
2018				
Executive directors:				
Mr. Wang Huiwu	203	—	—	203
Mr. Xu Changjun	203	149	499	851
Mr. Li Tao	203	—	2,404	2,607
	609	149	2,903	3,661
Non-executive directors:				
Mr. Wang Degen	203	—	—	203
Mr. Lu Zhichao	—	—	—	—
Mr. Tang Jianyuan	—	—	—	—
	203	—	—	203
	812	149	2,903	3,864

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
2017				
Executive directors:				
Mr. Wang Huiwu	—	—	—	—
Mr. Xu Changjun	—	343	—	343
Mr. Li Tao	—	191	—	191
	—	534	—	534
Non-executive directors:				
Mr. Wang Degen	—	—	—	—
Mr. Lu Zhichao	—	—	—	—
Mr. Tang Jianyuan	—	—	—	—
	—	—	—	—
	—	534	—	534

Messrs. Wang Huiwu, Xu Changjun, Li Tao were appointed as executive directors of the Company on 13 March 2017. Mr. Wang Huiwu was appointed as the chief executive officer of the Company on 2 February 2018.

Messrs. Wang Degen, Lu Zhichao and Tang Jianyuan were appointed as non-executive directors of the Company on 13 March 2017.

There was no arrangement under which an executive director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees are:

	Number of employees	
	2018	2017
Director	**1**	1
Non-director	**4**	4
	5	5

Details of directors' and chief executives' remuneration are set out in note 8 above. Details of the remaining highest paid employees who are neither a director nor chief executive of the Company during the year are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**998**	1,710
Equity-settled share option expense	**5,427**	—
Pension scheme contributions	**176**	137
	6,601	1,847

The number of the non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
Nil to HK$1,500,000	—	4
HK$1,500,001 to HK$2,000,000	**2**	—
HK$2,000,001 to HK$2,500,000	**2**	—
	4	4

During the year, share options were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 27 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax from business carried out in the Cayman Islands.

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

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. During the year, no separate policies, regulations or rules have been promulgated by such authorities in this regard. No corporate income tax was provided on the income from the provision of formal education services by the Group's PRC Private Schools, which have elected to be private schools require reasonable returns. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, the PRC Private Schools did not pay corporate income tax for the income from formal educational services and has enjoyed the preferential tax treatment since their establishment. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the year.

The non-academic education services provided by the schools are subject to corporate income tax at a rate of 25%.

All of the Group's non-school subsidiaries established in the PRC are subject to the PRC corporate income tax rate of 25% during the year, except WFOE as disclosed below.

Corporate income tax of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during the year. The major components of income tax expense of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Current – Mainland China		
PRC corporate income tax for the year	1,010	8,929
PRC land appreciation tax ("LAT") for the year	—	10,840
Overprovision of PRC LAT in prior year	(8,328)	—
Deferred	(523)	—
Total tax charged/(credited) for the year	(7,841)	19,769

10. INCOME TAX *(Continued)*

Tax payable/(prepaid or refundable PRC LAT) in the consolidated statement of financial position represents:

	2018 RMB'000	2017 RMB'000
Payable for PRC corporate income tax	34,053	42,830
Payable for PRC land appreciation tax	—	10,840
	34,053	53,670
Prepaid or refundable PRC land appreciation tax	(8,328)	(1,416)
	25,725	52,254

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries (or jurisdictions) in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	Notes	2018 RMB'000	2017 RMB'000
Profit before tax		159,496	229,425
Add: Loss incurred by the Company	(a)	108,296	—
Profit before tax by the Group other than the Company		267,792	229,425
Tax benefit at the respective statutory tax rates:			
– PRC subsidiaries, at 25%		66,986	57,356
– Hong Kong subsidiary, at 16.5%		(24)	—
Lower tax rate for specific province or enacted by local authority	(b)	(1,467)	—
Profits arising from schools not subject to tax		(59,322)	(30,981)
Tax losses utilised from previous years		(8,074)	(21,016)
Tax losses and deductible temporary differences not recognised		306	6,280
Provision for land appreciation tax		—	10,840
Overprovision of PRC LAT in prior year		(8,328)	—
Tax effect on LAT		2,082	(2,710)
Tax charge/(credited) at the Group's effective rate		(7,841)	19,769

Notes:

(a) Loss incurred by the Company mainly consist of share option expenses incurred by the Company. These expenses are not expected to be deductible for tax.

(b) WFOE was established in Horgos, Xinjiang, the PRC and is exempted from income tax for the first five years since 2018 in accordance with the preferential tax rules.

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed final – HK$1.8 cents (2017: nil) per ordinary share	**100,000**	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company for the year and the weighted average number of 5,672,990,228 ordinary shares in issue during the year ended 31 December 2018, as adjusted to reflect the capitalisation issue as set out in note 26 (2017: 4,947,499,947 ordinary shares, which were deemed to have been issued by way of capitalisation throughout the year ended 31 December 2017).

The calculation of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company as used in the basic earnings per share calculation, adjusted to reflect the interest on the composite instrument and fair value changes on the conversion right of the convertible bond. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

The calculations of basic and diluted earnings per share are based on:

	2018 RMB'000	2017 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation:	**167,916**	211,712
Interest on convertible bonds	**7,632**	3,334
Less: Fair value gains of the conversion right of the convertible bond	**(13,271)**	(6,253)
Profit attributable to ordinary equity holders of the Company before interest on the composite instrument and fair value gains on the conversion right of the convertible bond used in the diluted earnings per share calculation	**162,277**	208,793

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,672,990,228**	4,947,499,947
Effect of dilution – weighted average number of ordinary shares:		
Share options	**63,428,417**	—
Composite instrument	**1,256,895**	899,744
	5,737,675,540	4,948,399,691

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Devices and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	2,884,638	220,489	13,983	186,843	246,389	3,552,342
Accumulated depreciation	(168,234)	(83,967)	(5,999)	(98,784)	—	(356,984)
Net carrying amount	2,716,404	136,522	7,984	88,059	246,389	3,195,358
At 1 January 2018, net of accumulated depreciation	2,716,404	136,522	7,984	88,059	246,389	3,195,358
Additions	14,835	55,835	1,672	58,184	267,844	398,370
Disposals	(289)	(2,434)	(5,534)	(667)	—	(8,924)
Depreciation provided during the year	(61,257)	(39,197)	(381)	(35,702)	—	(136,537)
Transfers	110,796	—	—	—	(110,796)	—
At 31 December 2018, net of accumulated depreciation	2,780,489	150,726	3,741	109,874	403,437	3,448,267
At 31 December 2018:						
Cost	3,009,424	273,411	5,399	242,499	403,437	3,934,170
Accumulated depreciation	(228,935)	(122,685)	(1,658)	(132,625)	—	(485,903)
Net carrying amount	2,780,489	150,726	3,741	109,874	403,437	3,448,267
31 December 2017						
At 1 January 2017:						
Cost	2,001,468	164,994	6,544	151,779	161,718	2,486,503
Accumulated depreciation	(133,118)	(56,225)	(5,390)	(72,675)	—	(267,408)
Net carrying amount	1,868,350	108,769	1,154	79,104	161,718	2,219,095
At 1 January 2017, net of accumulated depreciation	1,868,350	108,769	1,154	79,104	161,718	2,219,095
Additions	42,700	47,477	7,686	16,576	632,891	747,330
Addition from acquisition of a subsidiary	353,743	6,993	—	12,541	7,775	381,052
Disposals	(49,773)	(1,636)	(22)	(4)	—	(51,435)
Depreciation provided during the year	(44,603)	(28,731)	(834)	(26,516)	—	(100,684)
Transfers	545,987	3,650	—	6,358	(555,995)	—
At 31 December 2017, net of accumulated depreciation	2,716,404	136,522	7,984	88,059	246,389	3,195,358
At 31 December 2017:						
Cost	2,884,638	220,489	13,983	186,843	246,389	3,552,342
Accumulated depreciation	(168,234)	(83,967)	(5,999)	(98,784)	—	(356,984)
Net carrying amount	2,716,404	136,522	7,984	88,059	246,389	3,195,358

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(a) At 31 December 2018, the Group was in the customary process of obtaining the relevant property ownership certificates for certain buildings with an aggregate net carrying amount of approximately RMB1,086,833,000 (2017: RMB1,551,675,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant certificates have been obtained.

(b) Additions to construction in progress during the year included interests capitalised in respect of certain bank loans borrowed generally amounting to RMB8,122,000 (2017: RMB3,369,000) (note 6).

14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	607,866	455,122
Acquisition of a subsidiary	—	176,521
Additions	12,349	3,376
Recognised during the year	(15,082)	(10,333)
Disposal during the year	(1,235)	(16,820)
Carrying amount at 31 December	603,898	607,866
Current portion included in prepayments, deposits and other receivables (note 17)	(13,883)	(12,993)
Non-current portion	590,015	594,873

At 31 December 2018, there were no land use rights without certificates (31 December 2017: certificates pending for land use rights with the carrying amount of RMB36,888,000).

15. GOODWILL

	2018 RMB'000	2017 RMB'000
Cost and net carrying amount at 1 January	**481,143**	53,176
Acquisition of a subsidiary	**—**	427,967
Cost and net carrying amount at 31 December	**481,143**	481,143

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash- generating units (CGU) for impairment testing:

- Sichuan Tianyi College cash-generating unit ("Tianyi College CGU")
- Jinci College of Shanxi Medical University cash-generating unit ("Jinci College CGU")
- Sichuan TOP IT Vocational Institute cash-generating unit ("TOP Institute CGU").

The carrying amount of goodwill allocated to each CGU at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
Tianyi College CGU	**36,865**	36,865
Jinci College CGU	**16,311**	16,311
TOP Institute CGU	**427,967**	427,967
	481,143	481,143

The recoverable amounts of the above CGUs had been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the Directors. The growth rate used to extrapolate the cash flows of the above CGUs beyond the five-year period is 3%.

Assumptions were used in the value in use calculation of the above CGUs for 31 December 2018. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted revenue – The budgeted revenue is based on the historical data and management's expectation on the future market.

15. GOODWILL *(Continued)*

Impairment testing of goodwill *(Continued)*

Budgeted EBIT – The basis used to determine the value assigned to the budgeted EBIT is the average EBIT achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Long term growth rate – The long term growth rate of 3% is based on the historical data and management's expectation on the future market.

Pre-tax discount rate – The pre-tax discount rate reflects the risks relating to the relevant CGUs, and is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain public listed companies conducting business in the PRC education industry. The pre-tax discount used in the value in use calculation for each CGU is as follows:

	2018	2017
Tianyi College CGU	**14%**	15%
Jinci College CGU	**14%**	15%
TOP Institute CGU	**14%**	15%

The values assigned to the key assumptions on the market development of the cash-generating unit and discount rate are consistent with external information sources.

The major key assumption on which management has based its determination of goodwill's recoverable amount is the budgeted tuition and boarding fees, which are dependent on the number of students and the unit price of tuition and boarding fees.

The Directors have estimated the reasonably possible changes in those factors and acknowledged that, even if the most unfavourable possible values were assigned to those factors, the recoverable amount then calculated, after incorporating any consequential effects of such assignments on the other variables used to measure the recoverable amount of the CGU, would still exceed its carrying amount.

16. OTHER INTANGIBLE ASSETS

	Software RMB'000	Cooperation arrangements to operate independent colleges RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	15,436	103,264	118,700
Additions	23,947	—	23,947
Amortisation provided during the year	(4,799)	(4,252)	(9,051)
At 31 December 2018	34,584	99,012	133,596
At 31 December 2018			
Cost	46,205	117,438	163,643
Accumulated amortisation	(11,621)	(18,426)	(30,047)
Net carrying amount	34,584	99,012	133,596
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	9,906	205,694	215,600
Additions	8,092	—	8,092
Transfer to investment in a joint venture*	—	(94,542)	(94,542)
Amortisation provided during the year	(2,562)	(7,888)	(10,450)
At 31 December 2017	15,436	103,264	118,700
At 31 December 2017			
Cost	22,590	117,438	140,028
Accumulated amortisation	(7,154)	(14,174)	(21,328)
Net carrying amount	15,436	103,264	118,700

16. OTHER INTANGIBLE ASSETS *(Continued)*

The net carrying amount of the cooperation arrangements to operate independent colleges and the original contractual periods to operate such colleges were as follows:

	2018 RMB'000	2017 RMB'000	Contractual period
Jinci College of Shanxi Medical University	**13,659**	14,531	20 years
Business College of Guizhou University of Finance and Economics	**85,353**	88,733	30 years
	99,012	103,264	

* The cooperation arrangement to operate the independent college of College of Science and Technology of Guizhou University acquired through acquisition with an original amount of RMB99,997,000 in September 2016 was amortised over 220 months ending January 2034, which represent the contractual period to operate the college and the arrangement had been transferred to the investment in a joint venture of College of Science and Technology of Guizhou University since September 2017 when the joint venture started to provide the education services. Such arrangement was disposed of in March 2018 together with the Group's disposal of Guizhou Jiexing Huilv Air Service Consultant Services Limited ("Jiexing Huilv") (note 32).

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2018 RMB'000	2017 RMB'000
Current portion:			
Prepayments for management fees	7(i)	18,626	38,163
Prepaid expenses		12,301	11,534
Deposits		10,278	7,868
Refundable deposit related to proposed equity acquisition		30,000	—
Rental receivables		2,500	—
Other receivables		5,660	2,800
Other receivables from the previous shareholder of TOP Education		—	40,962
Staff advances		4,537	4,515
Prepaid land lease payments to be amortised within one year	14	13,883	12,993
Deferred listing expenses		—	2,657
Interest receivable from time deposits		5,980	—
Interest receivables from a third party	(a)	24,964	—
		128,729	121,492
Non-current portion:			
Loans to a third party	(a)	447,670	—
Prepayments for property, plant and equipment		8,555	8,019
Prepayments for land lease payments		10,000	10,000
		466,225	18,019
		594,954	139,511

Note:

(a) Loans to a third party represent the loans to Chengdu Wuhou Guixi Property Development Company Limited ("Guixi Property"), a company controlled by the previous ultimate shareholder of Sichuan TOP IT Vocational Institute, and bear interest at a fixed rate of 7.5% per annum and will become mature within two years from the date when the loans were granted. The interest is paid half-yearly, and the principal of the loans will be repaid in a lump sum as the loans become mature. The loans are secured by the properties belonging to Guixi Property.

As at 31 December 2018, interest receivables with the amount of RMB17,929,000 arising from the loans have been partially past due. The Group does not recognise any ECLs as the fair value of the collateral held by the Group over the principal loans and the interest receivables of approximately RMB836,158,000 is higher than the aggregate amounts of the loans and the interest receivables. The fair value of the collateral i.e., buildings belonged Guixi Property is determined by an independent qualified valuer. The Group and Guixi Property has reached an agreement to repay the matured interest receivables before 15 April 2019 and has obtained a written repayment schedule from Guixi Property.

The remaining receivables are interest-free and are not secured with collateral.

None of the financial assets included in the above balances related to receivables is past due except the interest receivables from a third party mentioned in note (a) above.

The above financial assets related to receivables have no recent history of default.

18. CASH AND CASH EQUIVALENTS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**2,588,905**	181,332
Time deposits with original maturity of over three months	**450,000**	—
Cash and cash equivalents	**3,038,905**	181,332

The cash and cash equivalents were denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
RMB	**1,473,525**	181,332
HK$	**1,976**	—
US$	**1,563,404**	—
Cash and cash equivalents	**3,038,905**	181,332

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The time deposits are made for one year and earn interest at the deposit rate of 4% per annum. The bank balances are deposited with creditworthy banks with no recent history of default. None of the cash and cash equivalents above were pledged at 31 December 2018 (2017: Nil).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Wealth management products issued by licensed banks, at fair value	**—**	8,241

20. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Current portion:			
Payables for purchase of property, plant and equipment		144,797	253,953
Payable for acquisition of equity interest in Jiexing Huilv		—	15,000
Miscellaneous advances received from students	(i)	97,535	94,517
Accrued bonuses and other employee benefits		55,244	48,568
Rental payable		43,628	31,628
Government scholarship		13,976	9,987
Payables for purchase of teaching materials and operating expenditure		22,240	16,684
Payables for management fees	7(i)	20,419	1,435
Construction deposits		30,538	30,597
Notes payable		—	48,728
Other taxes payable		26,246	20,017
Other payables and accrued expenses		107,004	84,736
Construction loan from Mianzhu Education Bureau	(ii)	75,832	75,832
		637,459	731,682
Non-current portion:			
Other payable	(iii)	6,416	6,585
		643,875	738,267

Notes:

(i) The advances represented expenses relating to textbooks, military training, medical examination, insurance and etc. collected from students which will be paid out on behalf of students.

(ii) Sichuan Tianyi College obtained an interest-free and non-repayable construction loan from the Mianzhu Education Bureau in 2015.

(iii) The non-current other payable represents the liabilities to Nanchong No.19 Middle School for the purchase of fixed assets and is measured at amortised cost.

Other payables and accruals are unsecured and non-interest-bearing.

21. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
At 1 January	637,913	590,963
Grants received	38,239	54,709
Charged to profit or loss	(8,662)	(7,759)
At 31 December	667,490	637,913
Current	9,407	8,456
Non-current	658,083	629,457
	667,490	637,913

Deferred income represents the government grants received for subsidies relating to the construction of certain buildings. These grants related to assets are released to profit or loss over the expected useful lives of the relevant assets.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans - secured	6.00	2019	300,000	4.75-7.50	2018	208,000
Bank loans - unsecured	—	—	—	5.18	2018	200,000
Current portion of						
– long term bank loans - secured	4.75-7.06	2019	91,509	—	—	—
– long term bank loans - unsecured	—	—	—	5.23-6.65	2018	109,000
– other borrowings - secured	7.00-7.50	2019	135,171	7.5	2018	96,986
			526,680			613,986
Non-current						
Bank loans - secured	4.75-7.06	2020-2023	830,000	5.23-6.18	2019-2022	930,000
Other borrowings - secured	7.00-7.50	2020-2023	775,052	7.50	2022	335,461
			1,605,052			1,265,461
			2,131,732			1,879,447

22. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**391,509**	517,000
In the second year	**110,000**	250,000
In the third to fifth years, inclusive	**720,000**	680,000
	1,221,509	1,447,000
Other borrowings repayable:		
Within one year	**135,171**	96,986
In the second year	**211,129**	104,409
In the third to fifth years, inclusive	**563,923**	231,052
	910,223	432,447
	2,131,732	1,879,447

Notes:

All the Group's bank and other borrowings are denominated in RMB.

The Group's bank loans and other borrowings are secured by:

(a) Mortgages over the following assets:

Buildings of Guixi Property, a third party:

Guixi Property's building with the fair value of RMB836,158,000 was pledged for the bank loans of the Group amounting to RMB300,000,000 as at 31 December 2018.

Land and buildings of the following related parties (note 31(b)):

	2018 RMB'000	2017 RMB'000
Name of related party (as defined in note 31)		
Mianzhu Property and Wansheng Property	—	123,000
Fuquan Property	—	127,000
Chengdu Golden May and Jintang Property	—	75,000
	—	325,000

22. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

(b) Pledges of equity interests in the following subsidiaries of the Group:

(i) 100% of the equity interest in Sichuan Yonghe has been pledged for bank loans of RMB300,000,000 as at 31 December 2018 (2017: RMB550,000,000);

(ii) 100% of the equity interest in Top Education has been pledged for the bank loans of RMB574,000,000 as at 31 December 2018 (2017: Nil); and

(iii) 100% of the equity interest in Sichuan Guojian, the guarantee granted by Hope Education, and the rights over tuition fees of Southwest Jiaotong University Hope College have been provided or pledged to China National Investment and Guaranty Corporation to counter guarantee the corporate guarantee provided by China National Investment and Guaranty Corporation in relation to the Group's asset-backed-securities borrowings of RMB336,223,000 as at 31 December 2018 (2017: RMB432,447,000).

(c) Certain of the Group's bank and other borrowings are guaranteed by the following related parties:

	Loan amount	
	2018	2017
	RMB'000	RMB'000
Name of related party (as defined in note 31)		
West Hope Group	**—**	35,000
Tequ Education, Mr. Wang Huiwu	**300,000**	—
Mr. Wang Huiwu, Rongxing Driving, Wanqian Trading and Chengdu Property	**—**	250,000
Mr. Wang Huiwu	**100,000**	90,000
	400,000	375,000

(d) Certain of the Group's bank and other borrowings are guaranteed by the rights over tuition or boarding fees of the following schools:

	Loan amount	
	2018	2017
	RMB'000	RMB'000
Sichuan Tianyi College	**154,349**	130,000
Sichuan Tianyi College, Sichuan Hope Automotive Vocational College, Business College of Guizhou University of Finance and Economics, Sichuan Vocational College of Culture & Communication	**300,000**	300,000
Southwest Jiaotong University Hope College	**336,223**	432,447
Sichuan TOP IT Vocational Institute	**574,000**	—
Guizhou Vocational Institute of Technology	**100,000**	—
Jinci College of Shanxi Medical University	**167,160**	—
	1,631,732	862,447

23. COMPOSITE INSTRUMENT

	Notes	2018 RMB'000	2017 RMB'000
Composite instrument:			
Liability component	(a)	—	576,552
Conversion right	(b)	—	52,438
		—	628,990

On 22 August 2017, Hope Education issued a composite instrument of RMB600,000,000 which was consisted of a loan without any conversion right with interest at a rate of 7% amounting to RMB400,000,000 ("Fixed Interest Loan") and a convertible bond with interest at a rate of 8% amounting to RMB200,000,000, to Zhuhai Maiwen Investment Centre LLP ("Zhuhai Maiwen"). Unless the conversion option is exercised, an additional interest rate of 1% will be charged on the principal loan of RMB400,000,000.

The fair value of the composite instrument was determined by an independent qualified valuer, of which the fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option and the fair value of the conversion right was determined using the binomial option pricing model. The initial fair value of the liability component is RMB566,551,000 and the initial fair value of the conversion right is RMB58,691,000 and the Group recognised the fair value of the convertible bond exceeding the initial consideration in the amount of RMB25,242,000 as a deemed distribution to the shareholder in the capital reserve account.

The composite instrument issued has been split into the liability component and the conversion right as follows:

(a) Liability component:

	2018 RMB'000	2017 RMB'000
Liability component at 1 January	583,610	—
Composite instrument issued during the year	—	566,551
Effective interest recognised for the year*	40,109	20,503
Interest paid during the year	(29,458)	(3,444)
Convertible instrument converted during the year	(194,261)	—
Redemption of composite instrument	(400,000)	—
Liability component at 31 December	—	583,610
Less: interest payable within one year	—	(7,058)
	—	576,552

23. COMPOSITE INSTRUMENT *(Continued)*

(b) Conversion right:

	2018 RMB'000	2017 RMB'000
Fair value of conversion right at January 1	**52,438**	—
Fair value of conversion right issued during the year	—	58,691
Fair value gains of conversion right of the convertible bond (note 5)	**(13,271)**	(6,253)
Convertible instrument converted during the year	**(39,167)**	—
Fair value of conversion right at 31 December	—	52,438

* The related interest expense on the liability component was RMB40,109,000 for the year (2017: RMB20,503,000), which was calculated using the effective interest method with an effective interest rate of 10% per annum.

Zhuhai Maiwen entered into an agreement with the original shareholders of Sichuan Tequ, Mayflower, Guangkong Maiming, Guangwei Qinghe together with Hope Education and WFOE, pursuant to which Zhuhai Maiwen executed the conversion right to convert the convertible bond into the equity interests of Hope Education on 21 March 2018. After the completion of all conversion procedures, on 8 June 2018, Zhuhai Maiwen held 4.762% of the interest in Hope Education and on 3 July 2018, Glory Aurora Limited, a wholly-owned subsidiary of Zhuhai Maiwen, held a 4.762% of the interest in the Company by way of issuance of 2,500,053 shares.

24. LIABILITY OF A PUT OPTION GRANTED TO A SHAREHOLDER

The liability of the put option granted to a shareholder (the "Put Option Holder") in 2016 is initially recognised at fair value and subsequently measured at amortised cost with the effective interest rate of 10%. The initial fair value of the liability is RMB239,710,000 and the Group recognised the contribution amounting to RMB60,290,000 representing the amount of consideration received over the initial fair value of the liability as capital reserve.

On 5 February 2018, the Put Option Holder entered into a supplemental agreement with the Company to cease the right of the put option granted. Upon the cessation of the right of the put option granted on 21 March 2018, the amortised cost of the liability of the put option granted with the amount of RMB281,908,000 had been transferred to the equity.

25. DEFERRED TAX

Deferred tax liabilities

The deferred tax liabilities represented the taxable temporary differences arising from fair value adjustments from the acquisition of subsidiaries and the movements in deferred tax liabilities during the year are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	**10,677**	—
Acquisition of subsidiaries	—	10,677
Deferred tax credited to profit or loss during the year	**(523)**	—
At 31 December 2018	**10,154**	10,677

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. At 31 December 2018, the aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,099,591,000 (2017: RMB900,091,000).

At 31 December 2018, the Group has unused tax losses arising in Mainland China from PRC entities subject to income tax of RMB18,983,000 (2017: RMB52,182,000), which will expire in one to five years for offsetting against future profits. Deferred tax assets have been not recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

26. SHARE CAPITAL

	2018 US$	2017 US$
Authorised:		
10,000,000,000 shares of US$0.00001 each (2017: 50,000 shares of US$1 each) (Note (a))	100,000	50,000
Issued and fully paid:		
6,666,668,000 ordinary shares (31 December 2017: 1 ordinary share) of US$0.00001 each	66,667	1
Equivalent to approximately	RMB454,070	RMB7

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Issued capital RMB
At 1 January 2017	—	—
Share issued during the year	1	—
At 31 December 2017 and 1 January 2018	1	—
Issue of shares (note (b))	49,999,999	3,400
Issue of shares (note (c))	2,500,053	170
Issue of shares for IPO (note (d))	1,666,668,000	113,870
Capitalisation issue (note (e))	4,947,499,947	336,630
At 31 December 2018	6,666,668,000	454,070

Notes:

(a) Pursuant to the written resolutions passed by the shareholders of the Company on 30 January 2018, each share of a par value of US$1 in the authorised share capital of the Company was subdivided into 100,000 shares of a par value of US$0.00001 each. On 14 July 2018, the authorised share capital of the Company was increased to US$100,000 divided into 10,000,000,000 shares of a nominal value of US$0.00001 each, by the creation of 5,000,000,000 shares of a nominal value of US$0.00001 each.

(b) On 19 March 2018, the Company issued a total number of 49,999,999 shares for cash at a par value of US$0.00001 each.

(c) On 3 July 2018, the Company issued 2,500,053 shares to Glory Aurora Limited, a wholly-owned subsidiary of Zhuhai Maiwen due to the execution of the conversion of the convertible bond into the Company's shares.

(d) On 3 August 2018, 1,666,668,000 ordinary shares of par value US$0.00001 each were issued at a price of HK$1.92 per share in connection with the Company's IPO. The proceeds of US$16,666.68 (equivalent to approximately RMB113,870) representing the par value, were credited to the Company's share capital. The remaining proceeds of approximately HK$3,199,871,000 (equivalent to approximately RMB2,786,047,000) before issuing expenses were credited to the share premium account.

(e) 4,947,499,947 shares were allotted and issued to the shareholders of the Company, credited as fully paid at par value, immediately preceding the listing date on 3 August 2018 to the shareholders by way of capitalization of the sum of US$49,475 (equivalent to approximately RMB337,000) standing to the credit of the share premium account of the Company.

27. SHARE OPTION SCHEME

On 18 March 2018, the Company adopted a share option scheme (the "2018 Pre-IPO Share Option Scheme") for the purpose of providing incentives to senior management, mid-level employee and staff who contribute to the success of the Group. The 2018 Pre-IPO Share Option Scheme became effective on 18 March 2018 and will expire on the day immediately prior to the earlier of (i) the date on which the shares of the Company first commence trading on the Stock Exchange; (ii) the date which is twenty years after 18 March 2018; or (iii) the Company by resolution of the shareholders, or the board of directors, may at any time terminate the operation of the 2018 Pre-IPO Share Option Scheme, after which period no further Pre-IPO Share Options will be granted but the provisions of the 2018 Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Pre-IPO Share Options which are granted during the life of the scheme or otherwise as may be required in accordance with the provisions of the 2018 Pre-IPO Share Option Scheme.

HK$1.00 is required to be paid by the grantees of the 2018 Pre-IPO Share Option Scheme as a consideration for the grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

(i) Movements in share options

The following share options were outstanding under the 2018 Pre-IPO Share Option Scheme during the year:

	Weighted average exercise price RMB	Number of options
At 1 January 2018	—	—
Granted during the year	0.99	464,723,519
Forfeited during the year	0.99	(12,771,858)
At 31 December 2018	0.99	451,951,661

There are in total three tranches of share options under the 2018 Pre-IPO Share Option Scheme, namely tranche A ("Tranche A Options"), tranche B ("Tranche B Options") and tranche C ("Tranche C Options").

HK$1.00 is required to be paid by the grantees of the 2018 Pre-IPO Share Option Scheme as a consideration for the grant.

27. SHARE OPTION SCHEME *(Continued)*

(ii) Outstanding share options

The following table discloses the details of share options outstanding which are not exercisable at 31 December 2018:

	Number of share options	Exercise price per share RMB	Fair value per share RMB	Vesting period/ exercise period of share options Notes
Tranche A Options	3,383,731	0.5911	0.4427	(a)
Tranche B Options - 1	255,937,471	0.9311	0.3542	(a)
Tranche B Options - 2	61,865,727	0.9311	0.2377	(b)
Tranche C Options - 1	113,249,883	1.1311	0.3133	(a)
Tranche C Options - 2	17,514,849	1.1311	0.1840	(b)
	451,951,661			

Notes:

(a) Tranche A Options, Tranche B Options - 1 and Tranche C Options - 1 will vest over the period from the grant date to 180 days after 3 August 2018, which is the Listing Date. The exercise period of Tranche A Options, Tranche B Options - 1 and Tranche C - 1 Options commences after the vesting period and ends on 18 March 2038.

(b) Tranche B Options - 2 and Tranche C Options - 2 will vest over the period from the grant date to 18 months after 3 August 2018. The exercise period of Tranche B Options - 2 and Tranche C Options - 2 commences after a vesting period and ends 6 months later when Tranche B Options - 2 and Tranche C Options - 2 vest.

27. SHARE OPTION SCHEME *(Continued)*

(iii) Fair value of the share options

The fair value of the 2018 Pre-IPO Share Option Scheme granted during the year was RMB149,983,000 (RMB0.1840 to RMB0.4427 each), of which the Group recognised a share option expense of RMB122,345,000 after netting off fair value reversed due to forfeited options for the year.

The fair value of equity-settled share options granted during the year, was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	Tranche A Options	Tranche B Options	Tranche C Options
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	50%	50%	50%
Risk-free interest rate (%)	1.75%	1.41-1.75%	1.41-1.75%
Forfeiture rate	2.36%	2.36%	2.36%

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 451,951,661 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 451,951,661 additional ordinary shares of the Company and additional share capital of US$4,520 (equivalent to approximately RMB31,074) and share premium of RMB445,783,595 (before issue expenses).

At the date of approval of these financial statements, the Company had 451,951,661 share options outstanding under the 2018 Pre-IPO Share Option Scheme, which represented approximately 6.8% of the Company's shares in issue as at that date.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 130 of the financial statements.

Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as a dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time when the proposed dividend is to be paid.

Capital reserve

The capital reserve of the Group represents the capital contributions from the then equity holders of the Group's subsidiaries, after elimination of investments in subsidiaries.

Statutory surplus reserves

Pursuant to the relevant laws in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries. These reserves include (i) general reserve of the limited liability companies and (ii) the development fund of schools.

(i) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(ii) According to the relevant PRC laws and regulations, for private schools that require reasonable returns, they are required to appropriate to the development fund not less than 25% of the net income of the relevant schools as determined in accordance with generally accepted accounting principles in the PRC. The development fund is for the construction or maintenance of the schools or procurement or upgrade of educational equipment.

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leased out its land and buildings under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at the end of the year, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	13,187	7,412
In the second to fifth years, inclusive	2,965	3,891
After five years	187	467
Total	16,339	11,770

(b) As lessee

The Group leases certain of its dormitory buildings and motor vehicles under operating lease arrangements. Leases for dormitory buildings and motor vehicles are negotiated for terms ranging from 1 to 12 years and 5 years, respectively.

As at the end of the year, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	20,215	4,572
In the second to fifth years, inclusive	87,488	79,638
After five years	91,959	117,499
Total	199,662	201,709

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments as at the end of the year:

	2018 RMB'000	2017 RMB'000
Contracted but not provided for:		
Property, plant and equipment	83,495	169,849
Other intangible assets	—	3,593
Total	83,495	173,442

31. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship

The directors of the Company are of the view that the following parties/companies are related parties that had transactions or balances with the Group during the year.

Related parties	Relationships
Mr. Wang Huiwu	One of the ultimate jointly controlling parties
Mr. Cheng Yuxin	One of the ultimate jointly controlling parties
Hope Education Investment	Parent of the Company
Sichuan Tequ Investment Group Ltd. ("Tequ Investment Group")	One of the jointly controlling shareholders
Chengdu West Hope Group Ltd. ("West Hope Group")	Parent of Tequ Investment Group
Sichuan Tequ Education Management Co., Ltd. ("Tequ Education")	A company controlled by the jointly controlling parties
Mianzhu May Sunshine Property Development Co., Ltd. ("Mianzhu Property")	A company controlled by Tequ Education
Chengdu Golden May Business Management Co., Ltd. ("Chengdu Golden May")	A company controlled by Tequ Investment Group
College of Science and Technology of Guizhou University	Joint venture of Tequ Education
School Hospital of Southwest Jiaotong University Hope College ("School Hospital")	A hospital once controlled by Tequ Education
Chengdu Mayflower Training School ("Chengdu Mayflower Training")	A school controlled by Tequ Education
Jintang Golden May Property Development Co., Ltd. ("Jintang Property")	A company controlled by Tequ Education
Sichuan Mayflower Precision Instrument Co., Ltd. ("Mayflower Precision Instrument")	A company controlled by Mr. Wang Huiwu

31. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(a) Name and relationship *(Continued)*

Related parties	Relationships
Sichuan Wanqian Trading Co., Ltd. (“Wanqian Trading”)	A company ultimately controlled by Tequ Education before July 2017
Ziyang Automobile Science and Technology Vocational College (“Ziyang Automobile College”)	A school controlled by Tequ Education
Ziyang May Sunshine Property Development Co., Ltd. (“Ziyang Property”)	A company controlled by Tequ Education
Sichuan Mayflower Wine Sales Co., Ltd (“Mayflower Wine Sales”)	A company controlled by Ziyang Property
Chengdu Hope English Training School (“Hope English School”)	A school controlled by Tequ Education
Jingyu Garden in High Tech Zone (“Jingyu Garden”)	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Dawu Trading Co., Ltd. (“Dawu Trading”)	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Dawu Technology Co., Ltd. (“Dawu Technology”)	A company controlled by Dawu Trading
Sichuan Rongxing Driving School Co., Ltd. (“Rongxing Driving School”)	A company controlled by Tequ Education
Sichuan Tianyuan Insurance Co., Ltd. (“Tianyuan Insurance”)	A company controlled by Dawu Trading
Chengdu Red May Film Production Advertising Ltd. (“Chengdu Red May”)	A company controlled by Tequ Education
Guizhou Mayflower Driving Training Co., Ltd. (“Guizhou Mayflower Driving”)	A company controlled by Rongxing Driving School
Chengdu Mayflower Property Management Co., Ltd. (“Chengdu Mayflower Property Management”)	A company controlled by a close relative of Mr. Wang Huiwu
Chengdu Jinniu District Tianyi Primary School (“Tianyi Primary School”)	A school controlled by Tequ Education
Guizhou Mayflower Property Development Co., Ltd. (“Guizhou Mayflower Property”)	A company controlled by Tequ Education
Sichuan Wuyang Construction Project Company Limited (“Wuyang Construction”)	A company controlled by a close relative of Mr. Wang Huiwu
Sichuan Hope Insurance Co., Ltd. (“Hope Insurance”)	A company controlled by Dawu Trading
Chengdu Mayflower Senior Technical School (“Chengdu Mayflower Technical”)	A company controlled by Tequ Education
Sichuan TOP IT Vocational School (“TOP School”)	A company controlled by Tequ Education
Mianzhu Wansheng Property Development Co., Ltd. (“Wansheng Property”)	A company controlled by Tequ Education
Fuquan Mayflower Property Development Co., Ltd. (“Fuquan Property”)	A company controlled by Tequ Education

31. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties

(i) Loans received from/(repayment of loans to)

	2018 RMB'000	2017 RMB'000
West Hope Group		
Loans received from	—	150,000
Repayment of loans to	—	(277,410)
Interest paid	—	(49,561)
Interest expense charged by	—	6,223
Effective interest rate, per annum	—	6%-8%
Tequ Investment Group		
Loans received from	**100,000**	—
Repayment of loans to	**(100,000)**	—
Interest paid	**(685)**	—
Interest expense charged by	**685**	—
Effective interest rate, per annum	**8.5%**	—

The above loans are unsecured and repayable on demand or within one year.

(ii) Interest income

	2018 RMB'000	2017 RMB'000
Tequ Education	**26,055**	14,581
College of Science and Technology of Guizhou University	**1,522**	2,388
	27,577	16,969

The Group granted loans to Tequ Education and charged interest at 8.5% per annum based on the average monthly loan balances.

The Group granted loans to College of Science and Technology of Guizhou University and charged interest at 8% per annum based on the average monthly loan balances.

31. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(iii) Guarantees provided by the related parties

	2018 RMB'000	2017 RMB'000
Guarantee fee paid/payable to:		
West Hope Group	—	900

Other related parties listed in note 22(c) also provided guarantees for the Group's interest-bearing bank loans free of charge.

(iv) Guarantees provided to a related party

The Group provided guarantees for Chengdu Mayflower Technical's interest-bearing bank loans up to RMB130,000,000 (2017: RMB80,000,000) with guarantee income of 2% per annum based on the principal of the bank loan guaranteed. The after-tax guarantee income was RMB2,267,000 for the year (2017: RMB1,057,000). All the guaranteed bank loans have been repaid by Chengdu Mayflower Technical during the year.

(v) Procurement of property, equipment and fixtures

	2018 RMB'000	2017 RMB'000
Wuyang Construction	207,384	423,243
Dawu Trading	71,690	71,406
Mayflower Precision Instrument	5,534	3,776
Mianzhu Property	5,101	32,671
Ziyang Property	3,989	—
Dawu Technology	827	690
Chengdu Mayflower Property Management	318	—
Wanqian Trading	4	—
Jingyu Garden	—	2,938
Total	294,847	534,724

The considerations for the construction of property, equipment and fixtures were determined at prices mutually agreed between the Group and its related parties with reference to the arm's length pricing obtained from the market.

31. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(vi) Sales of properties

	2018 RMB'000	2017 RMB'000
Guizhou Mayflower Property	—	68,322
Tianyi Primary School	—	29,736
Total	—	98,058

The sales of property to the related parties were determined at prices mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the market.

(vii) Goods purchased and services received from related parties

	2018 RMB'000	2017 RMB'000
Chengdu Mayflower Property Management	2,878	608
Hope English School	939	237
Tianyuan Insurance	480	290
Wuyang Construction	203	—
Guizhou Mayflower Driving	80	—
Chengdu Mayflower Training	40	—
Hope Insurance	2	22
Mayflower Wine Sales	39	—
Chengdu Red May	10	—
School Hospital	—	491
Total	4,671	1,648

The purchases of goods or services from the related parties were determined at prices mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the market.

31. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(b) Transactions with related parties *(Continued)*

(viii) Properties leased to related parties

	2018 RMB'000	2017 RMB'000
Chengdu Mayflower Technical	**12,431**	11,915
Ziyang Automobile College	**9,261**	7,883
Rongxing Driving School	**2,862**	2,155
TOP School	**505**	—
Guizhou Mayflower Driving	**802**	800
Ziyang Property	—	123
Tianyi Primary School	—	424
Total	**25,861**	23,300

Rental charges were determined at prices mutually agreed between the Group and its related parties with reference to arm's length pricing obtained from the appraiser.

(ix) Disposal of a subsidiary

In March 2018, the Group entered into an equity transfer agreement with Tequ Education, to transfer the 70% equity interest in Jiexing Huilv for a consideration of RMB70 million (note 32).

(x) Service provided to a related party

The Group has provided educational consulting service to College of Science and Technology of Guizhou University since September 2018 and charged service fees amounting to RMB2,293,000 during the year at a price mutually agreed between the Group and the related party with reference to arm's length pricing obtained from the market.

The related party transactions in respect of procurement of property, equipment and fixtures from Mayflower Precision Instrument and properties leased to related parties above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

31. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(c) Balances with related parties

The Group had outstanding balances due from and to related parties at the end of the reporting period.

Amounts due from related parties

	Notes	2018 RMB'000	2017 RMB'000
Non-trade in nature			
Tequ Education	(i)	—	545,686
College of Science and Technology of Guizhou University		—	74,559
		—	620,245
Trade in nature			
Chengdu Mayflower Technical	(ii)	**1,736**	42,644
Chengdu Mayflower Property Management		**1,446**	795
Ziyang Automobile College		**1,052**	18,613
Guizhou Mayflower Driving		**80**	1,600
Guizhou Mayflower Property		—	23,796
Tianyi Primary School		—	2,871
Rongxing Driving School		—	7,515
Dawu Technology		—	500
Dawu Trading		—	478
TOP School		—	1,417
Chengdu Golden May		—	11,800
Jintang Property		—	427
Ziyang Property		—	123
		4,314	112,579
Total		**4,314**	732,824

Notes:

(i) The loans granted to Tequ Education of RMB545,686,000 were fully repaid during the year.

(ii) The Group charged a guarantees fee (note 31(b(iv))) for providing bank loan guarantees to Chengdu Mayflower Technical and the guarantee receivables were not past due as at 31 December 2018.

Except for the details set out above, the amounts due from the related parties are unsecured, interest-free and have no fixed terms of repayment.

31. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(c) Balances with related parties *(Continued)*

Amounts due to related parties

	Notes	2018 RMB'000	2017 RMB'000
Trade in nature			
Wuyang Construction		32,764	78,699
Tequ Education	(i)	14,070	—
College of Science and Technology of Guizhou University	(ii)	4,587	6,249
Hope English School		939	137
Tianyuan Insurance		443	443
Wanqian Trading		86	127
Chengdu Mayflower Training		40	—
Mayflower Wine Sales		11	—
Chengdu Red May		9	—
Hope Insurance		3	3
Mayflower Precision Instrument		1	1,986
Dawu Trading		—	52,613
Dawu Technology		—	603
Chengdu Mayflower Property Management		—	595
		52,953	141,455
Non-trade in nature			
TOP School		—	13,544
		52,953	154,999

Notes:

(i) During the year, the debt of the Group owing to Dawu Trading was transferred to Tequ Education with an amount of RMB39,168,000, of which RMB14,070,000 remained unsettled at 31 December 2018.

(ii) Payables to College of Science and Technology of Guizhou University are the consulting fees for the academic year 2018/2019 received in advance.

Payables due to related parties are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	1,595	1,488
Equity-settled share option expense	8,561	—
Pension scheme contributions	306	139
	10,462	1,627

Further details of directors' emoluments are included in note 8 to the financial statements.

32. DISPOSAL OF SUBSIDIARY

On 19 March 2018, the Group entered into a share transfer agreement with Tequ Education, pursuant to which the Group transferred 70% interests in Jiexing Huilv, a subsidiary which it indirectly owned, to Tequ Education for a consideration of RMB70,000,000. The transfer of shares was completed on 19 March 2018.

	RMB'000
Net assets disposed of	
Cash and bank balances	392
Other receivables	88
Investment in a joint venture	49,572
Intangible assets	91,361
Tax payable	(2)
Other payable	(261)
Due to related parties	(52,942)
	88,208
% of equity interest held	70%
Net assets disposed of	61,744
Gain on disposal of a subsidiary	8,256
	70,000
Satisfied by:	
Cash	70,000

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

Cash consideration	70,000
Cash and bank balances disposed of	(392)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	69,608

33. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Interest-bearing bank and other borrowings RMB'000	Convertible bond/ instrument RMB'000	Other payables and accruals RMB'000	Amounts due to related parties RMB'000	Total RMB'000
At 1 January 2017	1,629,000	15,000	81,268	176,971	1,902,239
Changes from financing cash flows	207,447	585,000	(154,651)	(127,410)	510,386
Classification of interest paid for presentation purpose	—	(3,444)	53,005	(49,561)	—
Non-cash changes:					
Acquisition of a subsidiary	43,000	—	—	—	43,000
Fair value gains of conversion right (note 23)	—	(6,253)	—	—	(6,253)
Deemed distribution to equity holder (note 23)	—	25,242	—	—	25,242
Reclassification of interest payable (note 23)	—	(7,058)	7,058	—	—
Interest expense	—	20,503	102,272	—	122,775
At 31 December 2017	1,879,447	628,990	88,952	—	2,597,389
Changes from financing cash flows	259,404	(400,000)	(195,087)	—	(335,683)
Classification of interest paid for presentation purpose	—	(22,400)	22,400	—	—
Non-cash changes:					
Fair value changes of conversion right (note 23)	—	(13,271)	—	—	(13,271)
Composite instrument converted during the year (note 23)	—	(233,428)	—	—	(233,428)
Transaction fee	(7,119)	—	—	—	(7,119)
Interest expense	—	40,109	163,430	—	203,539
At 31 December 2018	2,131,732	—	79,695	—	2,211,427

The non-cash changes represented the financial expenses related to the liabilities at amortised cost.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

Financial assets

	2018 RMB'000	2017 RMB'000
Financial assets at fair value through profit or loss:		
Financial assets at fair value through profit or loss	—	8,241
Financial assets at amortised cost:		
Cash and cash equivalents	3,038,905	181,332
Financial assets included in prepayments, deposits and other receivables	526,589	10,183
Due from related parties	4,314	732,824
	3,569,808	924,339

Financial liabilities

	2018 RMB'000	2017 RMB'000
Financial liabilities at fair value through profit or loss:		
Derivatives embedded in a composite instrument	—	52,438
Financial liabilities at amortised cost:		
Due to related parties	52,953	154,999
Interest-bearing bank and other borrowings	2,131,732	1,879,447
Liability component of a composite instrument	—	583,610
Financial liabilities included in other payables and accruals	562,385	660,157
Liability of a put option granted to a shareholder	—	276,153
	2,747,070	3,554,366

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximately to their fair values, are as follows:

	Carrying amount		Fair value	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**—**	8,241	**—**	8,241
Financial liabilities				
Conversion right embedded in the composite instrument	**—**	52,438	**—**	52,438
Other payable, non-current portion	**6,416**	6,585	**6,416**	6,585
Interest-bearing bank loans, non-current portion	**1,605,052**	1,677,380	**1,265,461**	1,314,542
	1,611,468	1,736,403	**1,271,877**	1,373,565

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, short-term interest-bearing bank and other borrowings and amounts due from/to related parties, approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The conversion right embedded in the composite instrument is measured using the binomial option pricing model. The model incorporates inputs including the market price, share price volatility and discount rates. The carrying amount of the conversion right embedded in the composite instrument is the same as its fair values.

The fair values of the non-current interest-bearing bank and other borrowings, and non-current other payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for non-current financial liabilities as at 31 December 2018 was assessed to be insignificant.

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

As at 31 December 2018, there were no financial instruments measured at fair value. The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets/(liabilities) measured at fair value:

31 December 2017

	Fair value measurement using			
	Quoted prices in active markets Level 1 RMB'000	Significant observable inputs Level 2 RMB'000	Significant unobservable inputs Level 3 RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	—	8,241	—	8,241
Conversion right embedded in the composite instrument	—	—	(52,438)	(52,438)
	—	8,241	(52,438)	(44,197)

Liabilities for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets Level 1 RMB'000	**Significant observable inputs Level 2 RMB'000**	**Significant unobservable inputs Level 3 RMB'000**	**Total RMB'000**
31 December 2018				
Interest-bearing bank loans, non-current portion	—	—	**1,677,380**	**1,677,380**
Other payable, non-current potion	—	—	**6,416**	**6,416**
	—	—	**1,683,796**	**1,683,796**
31 December 2017				
Interest-bearing bank loans, non-current portion	—	—	1,314,542	1,314,542
Other payable, non-current potion	—	—	6,585	6,585
	—	—	1,321,127	1,321,127

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and cash equivalents and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables, other payables and accruals, amounts due from related parties and amounts due to related parties, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing bank and other borrowings. The interest rates and terms of repayments of the borrowings are disclosed in note 22. The Group manages its interest rate exposure arising from its interest-bearing bank loans through the use of fixed rates. The Group has not used any interest swaps to hedge its exposure to interest rate risk.

The Group does not consider that it has any significant exposure to the risk of changes in market interest rates as the Group does not have any long term receivables and loans which are subject to floating interest rates.

Foreign currency risk

The Group has currency exposures from its cash and cash equivalents as at 31 December 2018 (2017: Nil). The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and HK$ exchange rate, with all other variables held constant, of the Group's profit after tax.

	Increase/ (decrease) in US$/HK$ rate %	Increase/ (decrease) in profit after tax RMB'000
2018		
If the RMB weakens against the US$	(0.5)	7,817
If the RMB strengthens against the US$	0.5	(7,817)
If the RMB weakens against the HK$	(0.5)	10
If the RMB strengthens against the HK$	0.5	(10)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meets its contractual obligation. The Group has no concentration of credit risk from third party debtors. Deposits are mainly placed with licensing banks which are all high-credit-quality financial institutions. The Group's maximum exposure to credit risk is the carrying amounts of cash and cash equivalents, trade and other receivables, and amounts due from related parties.

Maximum exposure and year-end staging as at 31 December 2018 and 2017

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018 and 2017. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018					
Financial assets included in prepayments, deposits and other receivables					
– Normal*	508,660	—	—	—	508,660
– Doubtful*	—	17,929	—	—	17,929
Cash and cash equivalents	3,038,905	—	—	—	3,038,905
Due from related parties	4,314	—	—	—	4,314
	3,551,879	17,929	—	—	3,569,808
31 December 2017					
Financial assets included in prepayments, deposits and other receivables	10,183	—	—	—	10,183
Cash and cash equivalents	181,332	—	—	—	181,332
Due from related parties	732,824	—	—	—	732,824
	924,339	—	—	—	924,339

* The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful" (note 17 (a)).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

As at 31 December 2018 and 2017, substantially all of the bank deposits were deposited with major financial institutions incorporated in the PRC, which management believes are of high-credit-quality without significant credit risk.

All of the other receivables and amounts due from related parties have no collateral, except the receivables from a third party (note 17 (a)). The Group assesses the credit quality of the counterparties by taking into account their financial position, credit history of failure to make payments on their contractually due date, the existing of forecast changes in market or environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group and other factors. Management also regularly reviews the recoverability of these receivables and follows up the disputes or amounts overdue, if any. Management is of the opinion that the risk of default by counterparties is low. For receivables from a third party with collateral, management is of the opinion that the expected cash flows to receive from the sale of collateral held, discounted at an approximation of the original effective interest rate, are higher than the aggregate amounts of the loans and the interest receivables with collateral.

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 throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

The Group assessed that the expected credit losses for these receivables without collateral and amounts due from related parties are not material under the 12-month expected losses method. Thus, no loss allowance provision was recognised during the year.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., accounts receivable) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities at 31 December 2018 and 2017 based on contractual undiscounted payments was as follows:

	2018				
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	35,653	628,041	1,800,924	2,464,618
Financial liabilities included in other payables and accruals	555,969	—	—	12,000	567,969
Due to related parties	52,953	—	—	—	52,953
	608,922	35,653	628,041	1,812,924	3,085,540

	2017				
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	464,241	602,248	1,405,296	2,471,785
Composite instrument	—	6,904	21,096	710,320	738,320
Liability of a put option granted to a shareholder	—	—	—	350,958	350,958
Financial liabilities included in other payables and accruals	660,630	—	—	12,600	673,230
Due to related parties	154,999	—	—	—	154,999
	815,629	471,145	623,344	2,479,174	4,389,292

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group will minimise the capital expenditure and renew or extend its short-term loans as part of capital management.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The debt-to-asset ratio as at the end of the year is as follows:

	2018 RMB'000	2017 RMB'000
Total liabilities	4,131,042	4,915,384
Total assets	8,291,194	5,594,772
Debt to asset ratio	50%	88%

37. EVENT AFTER THE REPORTING PERIOD

On 8 March 2019, Hope Education (as purchaser) and Tequ Education (as vendor) entered into an acquisition agreement, pursuant to which Hope Education agreed to acquire the entire interests in Chengdu Maysunshine Education Management Co., Ltd. ("Maysunshine") from Tequ Education at a consideration of RMB70,000,000. Further information can be found in the Company's announcement dated 8 March 2019.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the year is as follows:

	2018 RMB'000	2017 RMB'000
CURRENT ASSETS		
Other receivables	1,416	—
Amounts due from a subsidiary	1,151,389	—
Cash and cash equivalents	1,564,605	—
Total current assets	2,717,410	—
CURRENT LIABILITIES		
Other payables and accruals	1,179	—
Amounts due to related parties	—	27
Total current liabilities	1,179	27
NET CURRENT ASSETS	2,716,231	(27)
NET ASSETS	2,716,231	(27)
EQUITY/(DEFICIT)		
Issued capital	454	—
Reserves (note)	2,715,777	(27)
Total equity/(deficit)	2,716,231	(27)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2017				
Loss and total comprehensive loss for the year	—	—	(27)	(27)
At 31 December 2017 and 1 January 2018	—	—	(27)	(27)
Loss and total comprehensive loss for the year	—	—	(108,296)	(108,296)
Issue of new shares for IPO	2,785,710	—	—	2,785,710
Equity-settled share option arrangement	—	122,345	—	122,345
Share issue expenses	(83,955)	—	—	(83,955)
At 31 December 2018	2,701,755	122,345	(108,323)	2,715,777

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2019.

DEFINITIONS

"AGM"	annual general meeting of the Company to be held on 28 May 2019
"Articles of Association"	the articles of association of the Company
"Board"	the board of Directors of our Company
"Business College of Guizhou University of Finance and Economics"	Business College of Guizhou University of Finance and Economics (貴州財經大學商務學院), a college established under the laws of PRC in 2004, acquired by our Group in April 2014 and operated under the cooperation between Guizhou University of Finance and Economics and our Group in September 2014
"Business Day" or "business day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"CEL Maiming"	Shanghai CEL Maiming Investment Centre (Limited Partnership) (上海光控麥鳴投資中心(有限合夥)), a limited partnership established under the laws of PRC on 27 February 2015
"CG Code" or "Corporate Governance Code"	the code on corporate governance practices set out in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China excluding for the purpose of this report, Hong Kong, the Macau Special Administrative Region and Taiwan
"Chongqing School"	Chongqing Digital Industry Vocational and Technical College (重慶數字產業職業技術學院), a private institution of higher education college to be established under the laws of the PRC
"Company" or "our Company"	Hope Education Group Co., Ltd. (希望教育集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 13 March 2017
"Controlling Shareholder(s)"	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the group of controlling shareholders of our Company
"Convertible Loan"	On 22 August 2017, Zhuhai Maiwen entered into an debt investment with conversion rights agreement with Hope Education, Sichuan Tequ Investment, Chengdu Mayflower Investment Management, CEL Maiming and Guangwei Qinghe, pursuant to which Zhuhai Maiwen agreed to advance RMB600 million to Hope Education, among which RMB200 million is convertible into equity interest in Hope Education and/or its associated entities
"date of this annual report"	25 April 2019
"Director(s)"	the directors of our Company

"Gansu School"	Gansu Vocational Technical College (甘肅職業技術學院), a private institution of higher education college to be established under the laws of the PRC
"Group," "our Group," "we" or "us"	our Company, its subsidiaries and the consolidated affiliated entities from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time
"Guangwei Qinghe"	Shanghai Guangwei Qinghe Investment Centre (Limited Partnership) (上海光微青合投資中心(有限合夥)), a limited partnership established under the laws of PRC on 12 January 2016
"Guizhou College"	The College of Science and Technology of Guizhou University* (貴州大學科技學院), a college established under the laws of PRC in May 2001, approved by the MOE to be operated under the cooperation between Guizhou University and a third party in December 2014 and acquired by our Group in September 2016. Our Group disposed The College of Science and Technology of Guizhou University on 19 March 2018. For further details of the disposal, see "History, Reorganization and Corporate Structure" in the Prospectus
"Guizhou Vocational Institute of Technology"	Guizhou Vocational Institute of Technology* (貴州應用技術職業學院), a college established by our Group under the laws of PRC in March 2016
"HK$" or "Hong Kong dollar(s)"	the lawful currency of Hong Kong, Hong Kong dollars
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hope Education"	Sichuan Hope Education Industry Group Limited* (四川希望教育產業集團有限公司) (formerly known as Sichuan Mayflower Investment Company Limited (四川五月花投資有限公司), Sichuan Hope Mayflower Investment Limited (四川希望五月花投資有限公司), Sichuan Hope Education Industry Company Limited (四川希望教育產業有限公司)), a limited liability company established under the laws of PRC on 12 January 2005
"IFRS"	the International Financial Reporting Standard(s)
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
"Jiexing Huilv"	Guizhou Jiexing Huilv Air Service Consultant Services Limited (貴州捷星慧旅航空空乘諮詢服務有限公司), a limited liability company established under the laws of PRC on 9 September 2010

DEFINITIONS

"Jinci College of Shanxi Medical University"	Jinci College of Shanxi Medical University* (山西醫科大學晉祠學院), a college established under the laws of PRC in June 2002, acquired by our Group in April 2014, and operated under the cooperation between Shanxi Medical University and our Group in August 2014
"Listing"	the listing of the Company's Shares on the Main Board of the Stock Exchange of Hong Kong Limited
"Listing Date"	3 August 2018, the date on which the Company's Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange of Hong Kong Limited
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"M&A"	mergers and acquisitions
"Main Board"	the stock exchange (excluding the option market) operated by the Hong Kong Stock Exchange is independent of and operated in parallel with the GEM of the Hong Kong Stock Exchange
"Model Code"	The Model Code for securities transactions by Directors of listed issuers set out in Appendix 10 to the Listing Rules
"MOE"	Ministry of Education of the PRC
"Prospectus"	The prospectus published by the Company on 24 July 2018
"Registered Shareholders"	shareholders of Hope Education, namely, Sichuan Tequ Investment Group Limited (四川特驅投資集團有限公司), Chengdu Mayflower Investment Management Limited (成都五月花投資管理有限公司), CEL Maiming, Guangwei Qinghe and Zhuhai Maiwen
"Reporting Period"	the year ended 31 December 2018
"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of a nominal value of US$0.00001 each in the share capital of our Company
"Shareholder(s)"	holder(s) of the Share(s)
"Sichuan Department of Education"	Sichuan Department of Education

"Sichuan Hope Automotive Technical College"	Sichuan Hope Automotive Technical College* (四川希望汽車技師學院), a college established by our Group under the laws of PRC in July 2016
"Sichuan Hope Automotive Vocational College"	Sichuan Hope Automotive Vocational College* (四川希望汽車職業學院), a college established by our Group under the laws of PRC in March 2013
"Sichuan Tequ Investment"	Sichuan Tequ Investment Group Limited (四川特驅投資集團有限公司), a limited liability company established under the laws of PRC on 28 June 2005
"Sichuan Tianyi College"	Sichuan Tianyi College* (民辦四川天一學院), a college established and named as Sichuan Tianyi Open College (四川天一開放函授進修學院) in 1991, approved by the State Education Commission (currently, the MOE) to be a formal junior-college-level higher education institution in 1994 and acquired by our Group in September 2011
"Sichuan TOP IT Vocational Institute"	Sichuan TOP IT Vocational Institute* (四川托普信息技術職業學院), a college established by Sichuan TOP Education Co., Ltd. (四川托普教育股份有限公司) in June 2000 and acquired by our Group in December 2017
"Sichuan Vocational College of Culture & Communication"	Sichuan Vocational College of Culture & Communication* (四川文化傳媒職業學院), a college established as a higher vocational college in 2005 and acquired by our Group in March 2014
"Southwest Jiaotong University Hope College"	Southwest Jiaotong University Hope College* (西南交通大學希望學院), a college approved by the MOE to be established under the cooperation between Southwest Jiaotong University, Chengdu West Hope Group Limited and our Group in April 2009
"State"	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
"Subsidiary(ies)"	has the meaning ascribed to it in the Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Tequ Education"	Sichuan Tequ Education Management Limited* (四川特驅教育管理有限公司), a limited liability company established under the laws of PRC on 30 November 2017 following the division under reorganization, the shareholding of which largely mirrors that of Hope Education and is indirectly controlled by Mr. Wang Huiwu
"the Period"	for the year ended 31 December 2018
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction

"U.S. dollar(s)" or "US$" or "USD"	United States dollars, the lawful currency for the time being of the United States
"West Hope"	Chengdu West Hope Group Limited* (成都華西希望集團有限公司), a company established in the PRC with limited liability on 1 September 1997, which holds 55% of the shares of Sichuan Tequ Investment Group Limited* (四川特驅投資集團有限公司)
"WFOE"	Horgos Tequ Mayflower Information Technology Co., Ltd. (霍爾果斯特驅五月花信息科技有限公司), a company established in the PRC with limited liability on 19 January 2018 and a wholly-owned subsidiary of the Company
"Yixing CEL"	Yixing CEL Investment Co., Limited (宜興光控投資有限公司), a limited liability company established under the laws of PRC on 26 September 2008
"Zhuhai Maiwen"	Zhuhai Maiwen Investment Centre (Limited Partnership) (珠海麥玟投資中心(有限合夥)), a limited partnership established under the laws of PRC on 19 May 2017
"2018 Pre-IPO Share Option Scheme"	the 2018 pre-IPO share option scheme conditionally approved and adopted by our Shareholders on 18 March 2018 for the benefit of, amongst others, our Group's directors, senior management, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners and service providers, a summary of the principal terms of which is set out in "Appendix V — Statutory and General Information" of the Prospectus
"%"	percent

* *For identification purpose only*