CHINA 21ST CENTURY EDUCATION GROUP LIMITED
中國21世紀教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1598

2018
Annual Report

CONTENTS

I. Corporate Information

1. BOARD OF DIRECTORS

1.1 Executive directors

Mr. Li Yunong (李雨濃)
Mr. Liu Zhanjie (劉占杰)
Ms. Liu Hongwei (劉宏煒)
Mr. Ren Caiyin (任彩銀)
Ms. Yang Li (楊莉)

1.2 Independent non-executive directors

Mr. Guo Litian (郭立田)
Mr. Ma Guoqing (馬國慶)[1]
Mr. Yao Zhijun (姚志軍)
Mr. Wan Joseph Jason (尹宸賢)[2]

2. AUDIT COMMITTEE

Mr. Yao Zhijun (姚志軍) (chairman)
Mr. Guo Litian (郭立田)
Mr. Ma Guoqing (馬國慶)[1]
Mr. Wan Joseph Jason (尹宸賢)[2]

3. REMUNERATION COMMITTEE

Mr. Ma Guoqing (馬國慶) (chairman)[1]
Mr. Wan Joseph Jason (尹宸賢) (chairman)[2]
Mr. Guo Litian (郭立田)
Mr. Liu Zhanjie (劉占杰)

4. NOMINATION COMMITTEE

Mr. Li Yunong (李雨濃) (chairman)
Mr. Ma Guoqing (馬國慶)[1]
Mr. Yao Zhijun (姚志軍)
Mr. Wan Joseph Jason (尹宸賢)[2]

5. AUTHORISED REPRESENTATIVES

Mr. Liu Zhanjie (劉占杰)
Ms. Liu Qingli (劉青莉)[3]
Mr. Zheng Tieqiu (鄭鐵球)[4]

6. JOINT COMPANY SECRETARIES

Ms. Liu Qingli (劉青莉)[3]
Mr. Zheng Tieqiu (鄭鐵球)[4]
Ms. Wong Sau Ping (黃秀萍)

7. LEGAL ADVISOR

Luk & Partners In Association with Morgan, Lewis & Bockius

8. AUDITOR

Ernst & Young
Certified Public Accountants

9. COMPLIANCE ADVISOR

Messis Capital Limited

10. REGISTERED OFFICE

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

11. HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

8th Floor
Zhongdian Information Building
No. 356 Zhongshan West Road
Qiaoxi District
Shijiazhuang City
Hebei Province, the PRC

12. PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay, Hong Kong

13. CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

14. HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

15. PRINCIPAL BANKERS

Bank of Zhangjiakou, Shijiazhuang Branch
Industrial and Commercial Bank of China, Qiaoxi Sub-branch

16. COMPANY WEBSITE

www.21centuryedu.com

17. STOCK CODE

1598

Notes:
[1] Resigned on 6 March 2019
[2] Appointed on 6 March 2019
[3] Resigned on 28 January 2019
[4] Appointed on 28 January 2019

II. Chairman's Statement

• BUSINESS SUMMARY

China 21st Century Education Group Limited (the "Company"), together with its subsidiaries (collectively referred to as the "Group") (Stock Code: 1598), is the first large established private education service provider based in the area of Beijing, Tianjin and Hebei Province with access to the capital market of Hong Kong. Following the core philosophy of "assisting you in your whole life", we unremittingly provide clients with customized services and solutions based on individual demand, including preschool students in our kindergartens, primary school, middle school and high school students in our tutorial centers, secondary and junior college and continuing education students in our colleges, as well as small kids receiving our education via internet and their parents.

As of 31 December 2018, we had a total of 15 schools located in Shijiazhuang, Hebei Province, including 1 private college (Shijiazhuang Institute of Technology), 6 Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and 8 Saintach Kindergartens. As of 31 December 2018, we had a total of 30,567 students enrolled in our schools, including 15,681 full-time students and 14,886 part-time students.

In December 2018, to supplement the existing three main business divisions, we acquired 100% equity interests in Beijing Xin Tian Di Xian Information And Technology Co., Ltd.* (北京新天地綫信息技術有限公司) ("Xin Tian Di Xian") and established the internet business division, extending our business scope to online education. Our internet business division has over 1.3 million registered parent users.

We have been operating private schools in Hebei region for 15 years with a good brand image, enabling us to attract more students and teachers. Leveraging our years of experience in school operation and management, well-established course system and abundant talent pool, we believe that we have possessed the capability of replicating our school-running model and experience to more areas.

• OPERATING RESULTS

For the year ended 31 December 2018, owing to our standardized management and efficient operation, the Group saw significant growth in both operating indicators such as number of students enrolled, employment rate of graduates and key financial indicators such as revenue and profit.

For the year ended 31 December 2018, the Group's revenue amounted to approximately RMB202 million, representing a year-on-year increase of approximately 19%; profit for the year amounted to approximately RMB69.42 million, representing a year-on-year increase of approximately 54.1%; adjusted net profit amounted to approximately RMB80.65 million, a year-on-year increase of approximately 43%; earnings per share reached RMB6.48 cents. Meanwhile, the gross margin grew from approximately 45.0% for the year ended 31 December 2017 to approximately 50.6% for the year ended 31 December 2018.

As at 31 December 2018, there were 30,567 students enrolled in schools of the Company, increasing by 59% year on year, of which 15,681 were full-time students and 14,886 were part-time students.

In addition, for the year ended 31 December 2018, tutorial centers of the Group delivered approximately 363,000 tutoring hours to 4,984 students, with the student renewal rate after the first curriculum of 61.4%.

For the year ended 31 December 2018, the employment rate of graduates from Shijiazhuang Institute of Technology was approximately 94.5%, which is 2.9 percentage points higher than that for the year ended 31 December 2017.

• MAJOR ACHIEVEMENTS

Acquisition of Xin Tian Di Xian to Establish the Internet Business Division

On 17 December 2018, the Group purchased 100% equity interests in Xin Tian Di Xian, and at the same time appointed Mr. Xu Min (許敏), the former actual controller of Xin Tian Di Xian, as an executive president and head of the internet business division of the Group. The internet business division became the fourth main business division of the Group in addition to the business divisions of tertiary education, kindergarten to Grade 12 ("K12") tutorial programs and preschool education.

Founded in March 2015, Xin Tian Di Xian is a high and new technology enterprise committed to advancing education with technological innovations. Its sub-brands Bamasoso (爸媽搜) and Together Reading (一起朗讀) have established certain brand influence on their users, while its self-media matrix has registered over 1.3 million parent users, serving children from 3 to 12 years old and their parents.

The business pattern of Bamasoso is quite similar to that of www.jzb.com (家長幫) owned by Tomorrow Advancing Life, as both make use of parents exchange community to build family education and communication platforms where parents are provided with contents regarding learning methods, parent-child communication, personality training, etc., thus empowering family education. The Bamasoso and Together Reading can share resources with the current business divisions of the Group, including preschool education and K12 tutorial programs, while its 1.3 million parent users may serve as a pool of potential customers for the Group's education business at all levels. Besides, its mature parent social community can reduce marketing expenses for the Group's offline business and make client acquisition more targeted.

In addition to the established self-media brand and parent social community, Xin Tian Di Xian boasts a consummate system of family education and parent-child reading courses as well as a series of educational software with independent intellectual property rights, and it developed such business modules as smart education management platform, payment platform for education, early childhood education cloud and livestreaming cloud.

Launch of Gaojiaoyun Online

In September 2018, the Group launched the "Tianjiyun(天際雲)-High Education Edition" ("Gaojiaoyun" (高教雲)), which is an intelligent cloud-based SaaS product integrating a range of services for teachers and students at higher educational institutions, including student recruitment, arrival reporting, financial management, online payment, educational administration, internship and employment. It is the Group's first SaaS cloud platform with fully independent intellectual property rights. In the same year, Gaojiaoyun obtained the certificate of computer software copyright from the National Copyright Administration. At present, Gaojiaoyun Phase II has already been developed and is under comprehensive testing. Preparatory works for Gaojiaoyun Phase III has also started. The success in researching and developing Gaojiaoyun represents a milestone on the Group's journey of digital transformation.

Development of Evaluation System for Child Education Practitioners

In July 2018, a subsidiary of the Group signed the project cooperation agreement on "Development of an Assessment Tool for Risk Screening and Competency of Child Education Practitioners" with the Institute of Psychology, Chinese Academy of Sciences, and the project was completed in 2018.

The evaluation system for child education practitioners is designed to guide the recruitment, training and promotion of child education practitioners by evaluating their competency, which helps improve the remuneration level and overall quality of child education practitioners, thus facilitating better development throughout the industry. The project enables systematical monitoring and pre-warning for any child abuse risk in kindergarten, and offers systematic guidance to the personal growth of child education practitioners, as a part of the overall effort to cultivate teachers.

After the listing, the Group has adjusted its strategy for early childhood education segment, with efforts shifting from physical expansion of kindergartens to empowering the early childhood education industry with "content + technology". The development of such evaluation system is in line with the new strategy.

Financing Credit Line of RMB5 Billion from CITIC Bank

On 30 October 2018, the Group entered into a strategic cooperation agreement with China CITIC Bank Co., Ltd., Shijiazhuang Branch ("CITIC Bank"), pursuant to which the parties decided to build a long-term and stable comprehensive strategic cooperation relationship. CITIC Bank agreed to grant the intentional financing credit line of no less than RMB5 billion to the Group, including project loans, current working capital loans, trade financing business, bill business, letter of guarantee and letter of credit.

By entering into the strategic cooperation agreement, the Group will enjoy strong financing support for future business development, and with the preferential interest rate of financing, the cost of capital borne by the Group will also be reduced in the future.

Equity Incentive

On 11 October 2018, the Company granted a total of 5,190,000 share options under the share option scheme adopted by the Company on 4 May 2018, among which 2,820,000 share options were granted to 4 executive Directors, at an exercise price of HK$0.964 per share. The purpose of the share option scheme is to give the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group or to reward them for their past contributions, so as to attract and retain core talents of the Group.

• FUTURE STRATEGY

Since its listing, the Group has worked persistently to sort out and sharpen its business focus. Based on its existing advantageous businesses, the Group chooses to race along two courses, namely, vocational education and quality-oriented education. Going forward, we will continuously entrench and develop our business in these two directions.

The mission of the Group is to drive the development of education with content and technology. We should incorporate "content + technology", being the two sides of the same business transformation, in both vocational education and quality-oriented education. Our goal is to cultivate high-skilled talents with both expertise and plural skills to serve China's economic transformation and development, and to foster qualified citizens good at learning and innovation for social progress.

• ACKNOWLEDGEMENT

This is the first annual report of the Group after its listing, and we have attained an endogenous business growth faster than the market average. Looking ahead, we will expand into a larger region and business scope in line with our development strategy, and scale up our business size through outreach and acquisition.

Leveraging on our self-innovated education system and standardized management, the Group, by tightly seizing the development opportunities in the education industry arising from regional integration, will promote resources sharing and engage in locally-based education under globalized values, offering more friendly and convenient education services to students, with the ultimate aim to balance social progress and give everyone equal opportunities through education.

Li Yunong
Chairman of the Board

Hong Kong, 22 March 2019

III. Financial and Operating Highlights

1. RESULTS

	For the year ended 31 December			
	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
REVENUE	147,294	146,508	169,741	**201,995**
Cost of sales	(87,353)	(78,971)	(93,362)	**(99,691)**
Gross profit	59,941	67,537	76,379	**102,304**
Profit before tax	28,210	40,461	45,423	**70,196**
Profit for the year	26,736	40,018	45,038	**69,420**
Adjusted net profit ①	26,736	44,895	56,691	**80,651**
Basic earnings per share (RMB cents)	–	–	5.36	**6.48**

Note:

① Adjusted net profit eliminates the impact of listing-related expenses, which is a non-operating item.

	For the year ended 31 December			
	2015	2016	2017	**2018**
Gross margin	40.7%	46.1%	45.0%	**50.6%**
Adjusted net profit margin	18.2%	30.6%	33.4%	**39.9%**

2. SUMMARY OPERATING DATA

Operating information	**2018 to 2019**	2017 to 2018	Changes	Percentage of changes
Total number of students	**30,567**	19,181	11,386	**59%**
Among which: Full-time ①	**15,681**	12,921	2,760	**21%**
Continuing education ①	**14,886**	6,260	8,626	**138%**
Student capacity ②	**107.8%**	98.1%	9.7%	**10%**
Student retention rate ③	**96.9%**	98.1%	(1.2%)⑤	**(1%)**
Total number of teachers ④	**650**	621	29	**4.7%**

Notes:

① Full-time includes junior college students and secondary school students in the Shijiazhuang Institute of Technology and students in kindergartens; continuing education refers to part-time students in the Shijiazhuang Institute of Technology.

② Capacity of full-time students. The student capacity as of 31 December 2018 exceeded 100% for the reason that Shijiazhuang Institute of Technology implemented a "2+1" school system, where students at the third grade will work at enterprises as interns and will not result in a shortage in student apartments, and thus recorded a student capacity of over 100%.

③ Retention rate of full-time students.

④ The number is full-time teachers.

⑤ In order to enhance student management and improve teaching quality, Shijiazhuang Institute of Technology imposed stricter requirements on listening rate, attendance rate and pass rate to regulate students' behaviors, and expelled the students who failed to meet the above requirements or comply with the code of conduct for students, which resulted in a decrease in retention rate.

3. ASSETS AND LIABILITIES

	As at 31 December			
	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
Assets and liabilities				
Non-current assets	42,812	191,901	183,707	**203,829**
Current assets	304,109	69,643	133,704	**552,154**
Current liabilities	180,601	140,549	158,318	**170,194**
Net current assets/(liabilities)	123,508	(70,906)	(24,614)	**381,960**
Total assets less current liabilities	166,320	120,995	159,093	**585,789**
Non-current liabilities	20,911	9,068	1,502	**884**
Total equity	145,409	111,927	157,591	**584,905**
Property, plant and equipment	27,249	128,929	122,256	**125,541**
Cash and bank balances	13,612	5,320	39,864	**259,491**
Interest-bearing bank and other borrowings	57,800	34,322	35,106	**13,000**
Contract liabilities ①	–	–	–	**71,637**
Deferred revenue ①	43,403	48,218	57,530	**–**

	As at 31 December			
Financial ratios	2015	2016	2017	**2018**
Current ratio	168.4%	49.6%	84.5%	**324.4%**
Gearing ratio ②	39.7%	24.3%	22.3%	**2.2%**

Notes:

① Details are set out in note 2.2(c) to the consolidated financial statements in this annual report.

② Equals to total interest-bearing bank loans divided by total equity.

4. CASH FLOWS FROM OPERATIONS

	For the year ended 31 December			
	2015 (RMB'000)	2016 (RMB'000)	2017 (RMB'000)	**2018 (RMB'000)**
Net cash from operating activities	24,078	76,276	66,477	**123,876**

IV. Management Discussion and Analysis

1. BUSINESS REVIEW

1.1 Overview

As a leading private education provider in Beijing – Tianjin – Hebei Integrated Area focusing on the operation and content incubation of the education industry, and adhering to the corporate mission of "promoting the development of the education industry with contents and technologies", the Company has addressed itself to improving the efficiency and customer experience of education operation by virtue of technologies. Currently, the Company has diversified sources of revenue covering tertiary education and continuing education, K12 tutorial programs, preschool education and online education.

Considering improving students' abilities as our priority, we are committed to unremittingly providing clients with customized services and solutions based on individual demands. Leveraging on our self-innovated education system and standardized management, we dedicate to offering more friendly and convenient education services for students.

1.2 Cooperation and Acquisition during the Reporting Period

On 30 October 2018, the Group entered into a strategic cooperation agreement (the "Strategic Cooperation Agreement") with CITIC Bank in order to build a long-term and stable comprehensive strategic cooperation relationship between CITIC Bank and the Group. CITIC Bank will provide financial services to the Company to the extent permitted by applicable laws and regulations, and agreed to, subject to the relevant rules of People's Bank of China and China Banking and Insurance Regulatory Commission and CITIC Bank's internal risk management system and credit-granting approval, grant the intentional financing credit line of no less than RMB5 billion to the Company, including project loans, current working capital loans, trade financing business, bill business, letter of guarantee and letter of credit. CITIC Bank also agreed to provide other individualized financial services to the Company upon its request.

On 29 December 2018, the Group completed the acquisition of the 100% equity interest in Xin Tian Di Xian, to expand our customer base and service portfolio. With service coverage similar to ours, Xin Tian Di Xian has over 1.3 million active customers from the kindergarten stage to the K12 stage, owns sophisticated technology development teams and management team, and has various education curriculum systems for the parents and the reading systems for the children, respectively. Xin Tian Di Xian's current customer base, network platforms, technology and education systems will drive the further development of the Group's existing education service business.

1.3 Our Schools

1.3.1 Overview

As of 31 December 2018, the Group owned 15 schools, including 1 private college (Shijiazhuang Institute of Technology), 6 Saintach Tutorial Schools (consisting of 11 Saintach Tutorial Centers) and 8 Saintach Kindergartens, among which 1 Saintach Tutorial Center began operation in January 2018.

Schools of the Company	31 December 2018	31 December 2017
College	1	1
Tutorial school	6	6
Among which: tutorial center	11	10
Kindergarten	8	8
Total	15	15

1.3.2 Student enrollment

As of 31 December 2018, we had 30,567 students enrolled in our schools, including 15,681 full-time students and 14,886 part-time students. The specific details are as follows:

Breakdown of Student Enrollment	2018-2019 school year	2017-2018 school year	Changes	Percentage of changes
Full-time Students				
Shijiazhuang Institute of Technology				
Including: Junior college	**11,604**	9,198	2,406	26.2%
Secondary college	**2,351**	1,898	453	23.9%
Subtotal (full-time college students)	**13,955**	11,096	2,859	25.8%
Saintach Kindergartens ①	**1,726**	1,825	(99)	(5.4%)
Subtotal (full-time students)	**15,681**	12,921	2,760	21.4%
Part-time students				
Shijiazhuang Institute of Technology				
Continuing education programs ②	**14,886**	6,260	8,626	138%
Subtotal (part-time students)	**14,886**	6,260	8,626	138%
Total	**30,567**	19,181	11,386	59%

Notes:

① We optimized the classes of Saintach Kindergartens from 2018, and increased the number of high-end classes to improve teaching quality and income per student. The student capacity of a high-end class is 18-20, and the student capacity of the original international class was 25-30.

② The increase in the number of students in the continuing education programs for the year ended 31 December 2018 compared to that for the year ended 31 December 2017 was mainly due to the enrollment of students in 2018 by the new partner universities in 2017 on the one hand, and the increase in the number of students after Shijiazhuang Institute of Technology was approved as a teaching station for adult examinations on the other hand, and because of the long interval between recruitment and enrollment in respect of adult examinations, the number of students in this regard is based on the number of students recruited.

For the year ended 31 December 2018, our tutorial centers delivered approximately 363,080 tutoring hours to 4,984 students, with the student renewal rate after the first curriculum of 61.4%. Details are as follows:

	For the year ended 31 December			Percentage
	2018	2017	Changes	of changes
Saintach Tutorial Centers				
Number of tutoring hours delivered ①	**363,080**	367,752	(4,672)	(1.3%)
Number of students tutored	**4,984**	4,928	56	1.1%
Renewal rate	**61.4%**	55.4%	6.0%	10.8%

Note:

① The decrease in the number of tutoring hours delivered as of 31 December 2018 was mainly due to the decreased number of tutoring hours for small-class courses.

For the year ended 31 December 2018, we provided college operation services and accommodation service for 2,981 students in west campus of Sifang College.

1.3.3 Charge and average tuition revenue

As disclosed in the Prospectus, we charge our students fees comprising tuition (including tutoring fees) and, at our Shijiazhuang Institute of Technology, boarding fees. Our fee range approximates to that for the year ended 31 December 2017.

	For the year ended 31 December			Percentage
Average Revenue ①	**2018 RMB**	2017 RMB	Changes RMB	of changes
Shijiazhuang Institute of Technology	**5,873**	5,595	278	5.0%
Including: Junior college	**6,210**	5,918	292	4.9%
Secondary college	**4,224**	3,779	445	11.8%
Saintach Kindergartens	**16,530**	16,150	380	2.4%

Note:

① The average revenue earned from each full-time student is calculated based on the revenue generated from tuition for a whole fiscal year and the average number of students enrolled as of the beginning and end of the same year.

1.3.4 Employment rate

Shijiazhuang Institute of Technology builds a modern vocational education system, which adopts the "TOP" talent training model (TOP means "Technique-Occupation-Personality"), to continuously cultivate and deliver application-oriented talents for the society. For the year ended 31 December 2018, the employment rate of graduates for the year was approximately 94.5%:

Employment Rate①	31 December 2018	31 December 2017	Changes	Percentage of changes
Shijiazhuang Institute of Technology	94.5%	91.6%	2.9%	3.2%

Note:

① The employment rate refers to the proportion of employed students to the total number of college graduates for the year.

1.3.5 Our teachers

Teachers	31 December 2018	31 December 2017	Changes	Percentage of changes
Full-time Teachers				
Shijiazhuang Institute of Technology	324	302	22	7.3%
Saintach Tutorial Centers	163	153	10	6.5%
Saintach Kindergartens	163	166	(3)	(1.8%)
Subtotal (full-time teachers)	650	621	29	4.7%
Part-time Teachers				
Shijiazhuang Institute of Technology①	254	118	136	115.3%
Saintach Tutorial Centers②	298	583	(285)	(48.9%)
Saintach Kindergartens	–	–	–	–
Subtotal (part-time teachers)	552	701	(149)	(21.3%)
Total	1,202	1,322	(120)	(9.1%)

Notes:

① Including the corporate teachers meeting the requirements set out by the Implementation Guidelines for the Two-way Cooperation Projects between Universities and Enterprises issued by the General Office of the Ministry of Education and the General Office of the Ministry of Finance.

② The decrease in the number of part-time teachers was due to the Group's efforts to gradually improve the number of full-time teachers and standardize and consolidate the composition of part-time teachers to increase the number of classes given by outstanding part-time teachers.

The quality of education we provide is strongly tied to the quality of our teachers. We are committed to recruiting outstanding teachers and strive to maintain the stability of our teachers. The percentage of our teachers that have worked with us for more than two years increased from 64.1% as at 31 December 2017 to 72.5% as at 31 December 2018; and the percentage of our teachers with a bachelor's degree or above increased from 77.9% as at 31 December 2017 to 81.1% as at 31 December 2018.

1.3.6 Our research support

In order to build a smart campus for colleges and universities, eliminate information disconnection and straighten out the business processes of higher educational institutions, the Gaojiaoyun independently developed by the Group obtained the Registration Certificate for Computer Software Copyright issued by the National Copyright Administration on 22 November 2018. As an integrated cloud-based SaaS (software-as-a-service) product for teachers and students at higher educational institutions based on the complete business processes of higher educational institutions, Gaojiaoyun enables the student-life-cycle management on the students by the administrators of higher educational institutions from enrollment to employment, and provides value-added services closely related to learning, living and consumption at school. This technology greatly improves the overall informationization level of the schools, brings unprecedented convenience to teachers and students, and will turn into a core platform for the construction of smart campuses based on artificial intelligence technology in the future. Gaojiaoyun is available on both personal computer and mobile terminals, and is currently updated to Version 2.0, which has integrated the main functions of enrollment, registration, finance and school roll management, and will gradually incorporate multiple modules such as teaching, educational administration, internship, employment, student service and online payment and realize commercial application.

As an important player in the early childhood education sector, Hebei Saintach signed the project cooperation agreement of "Development of an Assessment Tool for Risk Screening and Competency of Child Education Practitioners" with the Institute of Psychology, Chinese Academy of Sciences on 23 July 2018, commissioning the Institute of Psychology, Chinese Academy of Sciences to provide special technical services for the development of the project, and officially released the "Evaluation System for Child Education Practitioners" at the Fifth Summit for High-end Preschool Education Participants in Beijing, Tianjin and Hebei on 25 November 2018, with a view to conducting risk screening and competency assessment on child education practitioners, systematically monitoring and realizing pre-warning for any teacher-related risk hidden in child education, guiding the personal growth of child education practitioners, and improving the remuneration level and overall quality of the child education practitioners, thus facilitating better development throughout the industry. We have completed the internal test and reporting presentation design for the system.

1.4 Our Licenses and Honors

As of 31 December 2018, the Company had obtained all licenses, permits, approvals and certificates necessary to conduct our operations from the relevant government authorities in the PRC, and such licenses, permits, approvals and certificates have been examined and verified in the 2017 annual verification as scheduled and remained in full effect. The 2018 annual inspection of the relevant government authorities in the PRC is intended to be completed in succession in mid-2019. Shijiazhuang Institute of Technology, Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten* (石家莊高新技術產業開發區新天際天山幼兒園) and Shijiazhuang City Chang'an District Saintach Tutorial School* (石家莊長安區新天際培訓學校) were awarded 2017 Annual Inspection Excellent School (Kindergarten) by Education Department of Hebei Province* (河北省教育廳), Examination and Approval Bureau of Shijiazhuang Hi-tech Industrial Developmental Zone* (石家莊高新區行政審批局) and Shijiazhuang Chang'an District Education Bureau* (石家莊長安區教育局), respectively.

On 12 December 2018, by virtue of the steadily growing performance in recent years, continuously improved comprehensive strength and strong development potential in future, the Group won the honor as the "New Listed Company with Greatest Growth Potential in 2018" at the selection campaign for the "Golden Lion Award" hosted by Sina Finance for the companies listed in Hong Kong.

2. MARKET REVIEW

2.1 Great Development Opportunity in front of Vocational Education and Quality-oriented Education

With the implementation of the various policies of the Ministry of Education of the PRC on changing the way of education, striving to return to education pattern and expansion of education diversity, vocational education, quality-oriented education and overseas school-running cooperation will usher in the development in greater depth.

According to the Frost & Sullivan Report as referred to in “Industry Overview” in the Prospectus, total revenue of the private higher education industry in the PRC is expected to increase to RMB139.0 billion by 2021, representing a compound annual growth rate of 7.6% from 2017; the total number of students enrolled in private higher education in the PRC is expected to increase to 8.0 million by 2021, representing a compound annual growth rate of 3.9% from 2016. In addition, there is a rapidly growing market demand for workforce with practical and readily applicable technical skills in a number of industries.

As indicated in the 2018 Survey Report on Burden Alleviation for Senior and Junior High School Students, over 40% of the students basically carry heavy study burden from the third grade in primary school in the PRC, which are basically the groups of students who can practically receive quality-oriented education. Meanwhile, up to 56% of the parents advocate the way of burden alleviation by stimulating children’s interests through entertainment-based education, forming the bases for the design of quality-oriented education products integrated with the function of subject improvement.

2.2 New Regulations

On 20 April 2018, the Implementation Rules for the Law for Promoting Private Schools of the PRC (Revised Draft) (Draft for Comments) (《中華人民共和國民辦教育促進法實施條例(修訂草案)》(徵求意見稿)) has been published by the Ministry of Education, and as such, on 10 August 2018, the Implementation Rules for the Law for Promoting Private Schools of the PRC (Revised Draft) (Draft for Review) (《中華人民共和國民辦教育促進法實施條例(修訂草案)》(送審稿)) (the “Revised Draft”) has been published by the Ministry of Justice for soliciting public comments. To date, these revised regulations have not been promulgated or implemented. Due to the facts that (i) none of our schools has practised compulsory education; and (ii) pursuant to “Implementation Opinions on Encouraging Social Support to Promote the Healthy Development of Private Education by the People’s Government of Hebei Province” (《河北省人民政府關於鼓勵社會力量興辦教育促進民辦教育健康發展的實施意見》) issued by the People’s Government of Hebei Province in January 2018, our schools are in the transition period, and have not yet chosen to be registered as for-profit or nonprofit schools, we believe if the Revised Draft is promulgated and implemented under the current provisions, the normal business operation and estimated results of the Company will not be affected. In addition, it was clearly stated in the Revised Draft “to establish private training and education institutions with education and teaching activities conducive to quality improvement and personal development, such as language ability, art, sport, technology and inquiry-based learning”, indicating the PRC’s support for accomplishing the fundamental task of enhancing morality education and vigorously developing quality-oriented education.

Xinhua News Agency was authorized to issue "Certain Opinions of the Central Committee of CPC and the State Council on In-Depth Reform and Regulated Development of Preschool Education (中共中央、國務院關於學前教育深化改革規範發展的若干意見)" ("Opinions") on 15 November 2018, which provided guidelines for further improvement of the preschool education public service system in the PRC. The Group has also been internally focusing on its corporate mission of "Driving the Development of Education through Content and Technology" and gradually optimized the development strategy of its preschool education business, and it is in the process of realizing the upgrading and transition of early childhood education ecosystem from chain kindergartens operation to "Technology + Content + Service (科技+內容+服務)". The Group's preschool education business consists of quality services and products including curriculum system, "Tianjiyun (天際雲)" operation informatization system, teachers training system and the competency assessment system for early education teachers of which we have commissioned the Institute of Psychology, Chinese Academy of Sciences (中國科學院心理研究所) to develop. In addition, it will gradually improve the teaching and research system and the quality assessment system of preschool education, with an aim of promoting the quality of preschool education in the PRC. The Company will continue to keep eyes on the promulgation and implementation of the Opinions and relevant laws and regulations of central and local government authorities, and will make adjustments and changes to the existing preschool education business and the use of proceeds and make disclosures by way of announcement when appropriate.

On 24 January 2019, the State Council issued the "Notice on Printing and Distributing the National Implementation Plan for Vocational Education Reform" ("Notice"), which attached greater importance to vocational education in the education reform and economic and social development, and after 5 to 10 years, vocational education will basically complete the transformation from the pattern where vocational education is mainly organized by government authorities to one where vocational education management is coordinated by government authorities and organized by various parties, and a number of vocational schools, production – education integrated enterprises and practical training bases with characteristic specialties will be established. According to the Report on the Work of the Government for 2019, the government also plans to speed up the development of modern vocational education, reform and optimize the measures for the student examination and recruitment of higher vocational schools, and expand the recruitment scale by 1 million, which provides a natural competitive advantage for the mutual recognition of vocational academic education and vocational qualification. As a higher vocational school, Shijiazhuang Institute of Technology always adheres to the practice of laying equal focus on the academic education of and skill trainings for application-oriented talents. The Company will continue to keep eyes on the promulgation and implementation of the Notice and relevant laws and regulations, and will seize the opportunities in the new era to contribute to the development and reformation of vocational education in the PRC.

On 23 February 2019, the Central Committee of CPC and the State Council issued China's Education Modernization 2035, which indicates that the overall objective of promoting educational modernization is: to comprehensively accomplish the development objectives set forth in the "Thirteenth Five-Year Plan" by 2020, and on that basis, with great efforts exerted for another 15 years, to establish a modern education system of lifelong learning, popularize quality preschool education, achieve quality and balanced compulsory education, comprehensively popularize senior high school education, remarkably enhance vocational education service capability, remarkably improve the competitiveness of tertiary education and provide appropriate education for disabled children and teenagers, thus creating a new education governance landscape where the whole society can take part by 2035. On the same day, the General Office of the Central Committee of CPC and the General Office of the State Council issued the Implementation Plan for Accelerating the Promotion of Education Modernization (2018-2022) (《加快推進教育現代化實施方案(2018-2022年)》), which put forward ten specific objectives: (i) to implement a new morality education program in the new era; (ii) to promote the consolidation and improvement of primary education; (iii) to deepen the production-teaching integration of vocational education; (iv) to further the content development of tertiary education; (v) to comprehensively strengthen the construction of teaching force in the new era; (vi) to vigorously promote education informatization; (vii) to implement the education revitalization plan for the mid-west region; (viii) to promote regional innovation experiment for education modernization; (ix) to promote the education program for jointly contributing to the "Belt and Road Initiative"; and (x) to deepen the comprehensive education reform in key areas. Such medium to long-term education objectives reflect the resolution of the government to improve education quality and the quality of teaching force, enrich education contents, deepen industry-finance cooperation and promote universal life-long learning, and also bring great development opportunities to the enterprises with quality education contents and services.

3. FUTURE PROSPECTS

Centering on the overall national objective for education modernization, we, as a large private education service provider, exert great efforts on the development of vocational education and quality-oriented education, and continue to maintain a diversified industrial layout.

We will attach greater importance to content development, specialty construction and the improvement of teaching quality and operational efficiency, continue to provide customers with quality education services and good customer experience, and take advantage of various technologies to empower customers to learn more efficiently and effectively. Meanwhile, we will apply our SaaS (Software-as-a-Service) products to more schools, kindergartens and institutions, gradually achieve commercial output and accumulate larger bases of customers and students.

We will actively build and promote quality-oriented education business for the children and young customer groups of 0-18 years old, help them cultivate a wider range of interests and abilities such as learning ability, logical thinking ability, manipulative ability and creative ability, and create a more convenient and efficient learning environment for students under the support of our high-quality faculty and courses and through internet-based tools and technologies. For this segment, we will continue to maintain a light-asset operation mode, and achieve output management by adhering to content construction and technology-driven development, and suspend the physical expansion of kindergartens.

We will develop vocational education business for adolescent and adult customers over the age of 15, and cultivate students' professional skills and professional capabilities through excellent specialty construction and standardized and normalized teaching management, so as to maintain high employment rate. We will also improve the production-education integration and school-enterprise cooperation levels for vocational education, with a view to stepping up the cultivation of technological and technical talents urgently needed for the development of the PRC.

Meanwhile, we will also exert more vigorous efforts in keeping abreast of and launching, when appropriate, overseas education business.

4. FINANCIAL REVIEW

4.1 Revenue

We derive revenue primarily from tuition (including tutoring fees) of schools from our students, boarding fees and income from college operation services for provision of service to the west campus of Sifang College.

The revenue increased by approximately 19.0% from approximately RMB169.7 million for the year ended 31 December 2017 to approximately RMB202.0 million for the year ended 31 December 2018, mainly due to the increased number of student recruitment and average tuition.

4.2 Cost of Sales

Cost of sales primarily consisted of staff costs, rental fees, depreciation and amortization and utilities.

The cost of sales increased by approximately 6.7% from approximately RMB93.4 million for the year ended 31 December 2017 to approximately RMB99.7 million for the year ended 31 December 2018, mainly due to (1) the increase in the rental expenses of the Shijiazhuang Institute of Technology by approximately RMB2.8 million; and (2) the increase in the staff costs by approximately RMB2.8 million.

4.3 Gross Profit and Gross Profit Margin

The amount of gross profit increased by approximately 33.9% from RMB76.4 million for the year ended 31 December 2017 to RMB102.3 million for the year ended 31 December 2018, and the gross profit margin increased from approximately 45.0% for the year ended 31 December 2017 to approximately 50.6% for the year ended 31 December 2018, which was mainly due to the increase in the number of student recruitment.

4.4 Other Income and Gains

Other income and gains consisted of (1) interest income from banks; and (2) site use fees charged to certain secondary vocational schools and companies in connection with usage of the premises and facilities of the Shijiazhuang Institute of Technology to organize teaching activities and training sessions for external use.

Other income and gains increased by approximately 4.9% from approximately RMB10.1 million for the year ended 31 December 2017 to approximately RMB10.6 million for the year ended 31 December 2018, mainly due to (1) the increase in bank interest income from term deposits by approximately RMB1.7 million; and (2) the decrease in site use fees by RMB1.2 million.

4.5 Selling and Distribution Expenses

Selling and distribution expenses primarily consisted of salaries and other benefits for recruitment and advertising staff, advertising expenses and student recruitment expenses.

Selling and distribution expenses decreased by 5.0% from approximately RMB8.0 million for the year ended 31 December 2017 to approximately RMB7.6 million for the year ended 31 December 2018, mainly due to the decrease in advertising and promotion expenses.

4.6 Administrative Expenses

Administrative expenses consisted of salaries and other benefits for general administrative staff, office-related expenses and listing expenses.

Administrative expenses increased by approximately 9.4% from approximately RMB28.8 million for the year ended 31 December 2017 to approximately RMB31.5 million for the year ended 31 December 2018, mainly due to the increase of RMB1.97 million in the lease expenses of the headquarters.

4.7 Other Expenses

Other expenses mainly consisted of (1) the cost of early childhood education management output; and (2) expenses relating to loss on disposal of various fixed assets.

Other expenses increased from approximately RMB0.4 million for the year ended 31 December 2017 to approximately RMB0.9 million for the year ended 31 December 2018, mainly due to an increase in management output expenses attributable to early childhood education.

4.8 Finance Costs

Finance costs mainly represented interest on loans borrowed from financial institutions and guarantee fees paid to third parties for the loans borrowed.

Finance costs decreased by approximately 28.9% from approximately RMB3.8 million for the year ended 31 December 2017 to approximately RMB2.7 million for the year ended 31 December 2018, mainly due to the decrease in the amount of loans.

4.9 Taxation

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.

The Company's directly held subsidiary was incorporated in the BVI as an exempted company with limited liability under the BVI Companies Act 2004 and accordingly is not subject to income tax.

Pursuant to the Law of the People's Republic of China on Enterprise Income Tax and the respective regulations, tutorial centers which provide non-academic educational services established in the PRC are subject to the PRC Corporate Income Tax at the rate of 25%. Income tax expenses remained stable due to the relatively stable operation of non-school subsidiaries established in the PRC.

4.10 Profit for the Year

Due to the above factors, profit for the year of the Group increased from approximately RMB45.0 million for the year ended 31 December 2017 to approximately RMB69.4 million for the year ended 31 December 2018.

4.11 Adjusted Net Profit

The Company defined its adjusted net profit as its profit for the period after adjusting for those items which were not indicative of the Company's operating performances (as presented in the table below). This was not an IFRS measure. The Company had presented this item because the Company considered it as an important supplemental measure of the Company's operational performance used by the Company's management and investors. The following table shows profit and adjusted net profit of the Group for the periods presented below:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit for the year	**69,420**	45,038
Plus:		
Listing expenses	**11,231**	11,653
Adjusted net profit	**80,651**	56,691

Adjusted net profit for the year ended 31 December 2018 increased by approximately RMB24.0 million compared with that for the year ended 31 December 2017, representing an increase of 42.3%. Adjusted net profit margin increased from approximately 33.4% for the year ended 31 December 2017 to approximately 39.9% for year ended 31 December 2018.

4.12 Net Liquidity and Capital and Funds and Borrowing Sources

As of 31 December 2018, net current assets of the Group were approximately RMB382.0 million, which mainly consisted of prepayments, other receivables and other assets, term deposits, pledged deposits and cash and bank balances.

As of 31 December 2018, current assets increased from approximately RMB133.7 million as of 31 December 2017 to approximately RMB552.2 million. The increase in the current assets primarily reflected that cash and bank balances increased from approximately RMB109.9 million as of 31 December 2017 to approximately RMB527.1 million as of 31 December 2018, which was mainly due to proceeds from the issue of Shares in the initial public offering and the exercise of the over-allotment option.

As of 31 December 2018, the current liabilities increased from approximately RMB158.3 million as of 31 December 2017 to approximately RMB170.2 million. The increase in the current liabilities mainly reflects (1) the increase in tuition and boarding fee received in advance from students from approximately RMB57.5 million (recorded in deferred revenue before adoption of IFRS 15) as of 31 December 2017 to approximately RMB71.6 million (recorded in contract liabilities as a result of adoption of IFRS 15) as of 31 December 2018, mainly due to the increase in the number of students; (2) the increase in other payables and accruals from approximately RMB64.6 million as of 31 December 2017 to approximately RMB83.3 million as of 31 December 2018, mainly due to the unsettled payment for education materials and other reasons; and (3) the decrease in interest-bearing bank and other borrowings from approximately RMB34.4 million as of 31 December 2017 to approximately RMB13.0 million as of 31 December 2018, which was mainly attributable to the repayment of loans from financial institutions.

As at 31 December 2018, the current ratio of the Group (current assets divided by current liabilities) was 324.4%, which was 84.5% as at 31 December 2017. The increase in the current ratio was mainly due to the increase in current assets as a result of the increase in cash and cash equivalents.

In order to manage the liquidity risk, the Group monitored and maintained a sufficient level of cash and cash equivalents deemed adequate by the management, as the working capital of the Group, and to eliminate the impact of cash flow fluctuations. The Group expects that it can meet the cash flow requirement in the future with internal cash flow generated by operations and bank borrowings. The Group did not use other financial instruments during the year ended 31 December 2018.

As at 31 December 2018, all bank borrowings of the Group are denominated in Renminbi, and bear interests at fixed rates. The Group has not adopted financial instruments for hedging purposes.

4.13 Gearing Ratio

As at 31 December 2018, the gearing ratio (calculated by total bank interest-bearing loans divided by total equity) was approximately 2.2%, representing a decrease of 20.1 percentage points from approximately 22.3% as at 31 December 2017, mainly due to the repayment of the borrowings of RMB22.1 million by the Group to financial institutions in 2018.

4.14 Major Investment

Except as disclosed in the Prospectus and this annual report, the Group has no other plans for major investment and capital assets.

4.15 Major Acquisitions and Disposals

For the year ended 31 December 2018 and up to the date of this annual report, the Group has not conducted any major acquisition or disposal of any subsidiary or associated company.

4.16 Contingent Liabilities

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

4.17 Foreign Exchange Risk

Most gains and expenses of the Group were denominated in Renminbi. As at 31 December 2018, certain bank balances were denominated in Hong Kong dollars or US dollars. The Group currently does not have any foreign exchange hedging policy. Management will continue to monitor the foreign currency exchange risk of the Group and consider taking due diligence measures in due course.

4.18 Pledge of Asset

For the year ended 31 December 2018, the Group pledged bank deposits of RMB105,000,000 for obtaining a bank facility which had not been used by 31 December 2018. (2017: Nil).

4.19 Events after the Reporting Period

In addition to the events as set out in the sections headed "Changes in Directors and Senior Management" on page 36 and "Purchase, Redemption or Sale of the Listed Securities" on page 44 of this annual report, as was disclosed in the announcement of the Company dated 28 February 2019, the Group agreed to invest RMB2,000,000 into Beijing Ying Yu New Media Interaction Technology Co., Ltd.* (北京英育新媒互動科技有限公司) ("Beijing Ying Yu"), of which RMB61,300 shall be injected into the registered capital of Beijing Ying Yu. Upon completion of such capital contribution, Beijing Ying Yu will be held as to 2% by the Group. Beijing Ying Yu is a company mainly engaged in the development and consultancy of the technology and corporate management services.

V. Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Li Yunong (李雨濃) (formerly known as Li Desong (李德頌)), aged 54, is one of the Controlling Shareholders and founders of the Group. Mr. Li was appointed as the chairman of the Board and an executive Director on 19 January 2017 and has served as a director of Shijiazhuang Institute of Technology since May 2003, mainly responsible for the overall formulation, guidance of business strategy and development of the Group. Mr. Li has more than 20 years of experience in the education industry.

Mr. Li served as a teacher in Hebei Institute of Physical Education* (河北體育學院) from July 1985 to October 1990 and he was engaged as a scriptwriter in Shijiazhuang Institute of Art* (石家莊藝術研究所, currently known as the Institute of Culture and Arts of Shijiazhuang City* (石家莊市文化藝術研究所)) from November 1990 to October 1994. Mr. Li has been serving as the art director in the Hebei Youth Television Culture and Art Center* (河北青年電視藝術中心) from November 1994. Since January 2004, Mr. Li has been acting as the chairman of the board of directors of Lionful Investment Holding Co., Ltd.* (新聯合投資控股有限公司) ("Lionful Investment Holding").

Mr. Li graduated from Hebei University (河北大學) in Baoding, Hebei Province, the PRC, with a bachelor's degree in economics in July 1985 and Tsinghua University (清華大學) in Beijing, the PRC, with a master of business administration for senior management in January 2006.

Mr. Liu Zhanjie (劉占杰), aged 46, was appointed as a Director on 20 September 2016 and re-designated as an executive Director on 19 January 2017, and was appointed as the vice chairman of the Board on 7 January 2019, mainly responsible for promoting the implementation of major matters in accordance with the Group's business strategy. Mr. Liu has more than 15 years of experience in the education industry.

Mr. Liu served as a deputy head of labor and personnel department and director of staff's training center of Hebei Province No. 4 Construction Engineering Co., Ltd.* (河北省第四建築工程公司) from July 1994 to May 2003, and as the manager of integrated department of Lionful Investment Holding from June 2003 to October 2004. Mr. Liu joined the Group in November 2004 as the executive vice dean of Shijiazhuang Institute of Technology and ceased to be the executive vice dean in October 2007. From October 2007 to August 2017, Mr. Liu has successively served as the deputy general manager and the president of Hebei Lionful Education Investment Co., Ltd.* (河北廿一世紀教育投資有限公司) ("Lionful Education"). Mr. Liu has been a director of Shijiazhuang Institute of Technology since November 2011, the chairman of the board of directors of Hebei Saintach Education and Technology Co., Ltd.* (河北新天際教育科技有限公司) ("Hebei Saintach") since August 2015 and Shijiazhuang Saintach Education and Technology Co., Ltd.* (石家莊新天際教育科技有限公司) ("Shijiazhuang Saintach") since July 2016. He served as executive president of the Company from 30 August 2017 to 7 January 2019 and a director of China's Non-government Education Association since 2 December 2018.

Mr. Liu graduated from Hebei University (河北大學) in Baoding, Hebei Province, the PRC, with a bachelor's degree of arts majoring in Chinese literature (漢語言文學) in July 1994 and Hebei University of Technology (河北工業大學) in Tianjin, the PRC, with a master's degree in business administration in December 2004. He obtained the certificate of qualification of a senior human resources management professional awarded by the Vocational Skills Appraisal Guidance Center of Hebei Province* (河北省職業技能鑒定指導中心) in August 2003 and was accredited as a senior economist by The Title Reform Leading Group Office of Hebei Province* (河北省職稱改革領導小組辦公室) (the "Hebei Title Reform Office") in December 2003. He also obtained a certificate of career instructor awarded by the Occupational Skill Testing Authority of the Ministry of Human Resources and Social Security of the PRC (中國勞動和社會保障部職業技能鑒定中心) in December 2006.

Ms. Liu Hongwei (劉宏煒), aged 36, was appointed as an executive Director on 19 January 2017 and appointed as the chief executive officer of the Company on 7 January 2019, mainly responsible for the overall operation and development of the Group and the overall operation and daily management of tutorial schools of the Group. Ms. Liu has more than eight years of experience in the education industry and more than 14 years of experience in the corporate management.

From June 2004 to May 2010, Ms. Liu held various positions in different branch offices of Hebei 1+2 Real Estate Brokerage Co., Ltd.* (河北壹加貳房地產經紀有限公司), including the manager of marketing department and the manager of operation management department and the general manager. Ms. Liu joined the Group in May 2010 and has successively served in Shijiazhuang Saintach as the manager of operation management department, the assistant to the general manager, the deputy general manager and the general manager since then. From August 2013 to August 2017, Ms. Liu served as the assistant to the president and the vice president of Lionful Education, successively. From 19 January 2017 to 7 January 2019, she served as the executive president of the Company. Since 2014, she has been the vice chairman of Shijiazhuang Association for Non-government Education.

Ms. Liu graduated from Hebei University (河北大學) in Baoding, Hebei Province, the PRC, majoring in law in July 2003 and with master's degree in business administration in January 2015.

Mr. Ren Caiyin (任彩銀), aged 42, was appointed as an executive president and an executive Director on 19 January 2017, and was the president of higher education business division of the Company, mainly responsible for the overall operation and daily management of the higher education section of the Group. Mr. Ren has more than 14 years of experience in the education industry.

Mr. Ren joined the Group in October 2004 as a teacher of Shijiazhuang Institute of Technology and has served in several positions successively including the head of the teaching and research section, the dean of economics and management college, the assistant to the dean, the executive vice dean and the executive dean since then. Mr. Ren also has been a director and the executive vice president of Lionful Education from June 2016 to August 2017. He has served as a director of Hebei Saintach since September 2016.

Mr. Ren graduated from Northeast Forest University (東北林業大學) in Harbin, Heilongjiang Province, the PRC, with a bachelor's degree in forestry in July 2001 and a master's degree in ecology in June 2004. He obtained the qualification as a teacher in higher education granted by the Education Department of Hebei Province (河北省教育廳) in December 2007 and obtained the title of associate professor granted by Hebei Title Reform Office in December 2016.

Ms. Yang Li (楊莉), aged 47, was appointed as an executive Director on 15 February 2017, mainly responsible for the research on marketing strategies of the Group. Ms. Yang has more than 14 years of experience in the education industry and more than 14 years of experience in accounting and financing.

Ms. Yang served as the deputy director of the financial department of Shijiazhuang Jingang Internal-combustion Engine Parts Group Co., Ltd.* (石家莊金剛內燃機零部件集團有限公司) from July 1993 to January 2001. Ms. Yang joined the Group in January 2001 as an accountant in Lionful Education. She ceased to be an accountant in January 2004 and served as the financial manager from January 2004 to January 2005 and successively as the investment manager and the strategic planning manager in strategy development department from January 2005 to August 2017. Ms. Yang served as a director in Shijiazhuang Saintach from June 2013 to April 2015 and as a director in Hebei Saintach from July 2013 to December 2015. Ms. Yang served as a director in Lionful Education from July 2013 to October 2016.

Ms. Yang graduated from Shaanxi Institute of Mechanical Engineering* (陝西機械學院, currently known as Xi'an University of Technology* (西安理工大學)) in Xi'an, Shaanxi Province, the PRC, with a bachelor's degree of engineering in July 1993, and Renmin University of China (中國人民大學) in Beijing, the PRC, with a master of economics in June 2009. She obtained the registered qualification certificate of registered tax agent in September 2002 and the qualification certificate of senior accountant in November 2015, both granted by the Hebei Title Reform Office. She was granted the certified public accountant certificate by The Chinese Institute of Certified Public Accountants (中國註冊會計師協會) in December 2002.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Guo Litian (郭立田), aged 67, was appointed as an independent non-executive Director on 19 January 2017 and is responsible for providing independent opinion and judgment to the Board.

Prior to joining the Group, Mr. Guo successively served in Hebei University of Economics and Business (河北經貿大學) as the dean of accounting college, the secretary of party committee and the dean of economics and management college, and the director of disciplinary construction and degree management office from June 1998 to May 2008. After May 2008, Mr. Guo had served as a tutor to graduate students in Hebei University of Economics and Business until he retired in March 2016.

Mr. Guo graduated from Hebei College of Finance and Trade* (河北財貿學院) (currently known as Hebei University of Economics and Business (河北經貿大學)) in Shijiazhuang, Hebei Province, the PRC, with a bachelor's degree in economics in August 1983. He obtained the title of professor (specialized in business administration) by the Hebei Title Reform Office in June 2009 and was awarded as the brilliant accounting worker in Hebei Province (河北省優秀會計工作者) by the Finance Department of Hebei Province* (河北省財政廳) in August 2005.

Mr. Ma Guoqing (馬國慶), aged 50, was appointed as an independent non-executive Director on 19 January 2017 and is responsible for providing independent opinion and judgment to the Board. He ceased to be an independent non-executive Director on 6 March 2019.

Prior to joining the Group, Mr. Ma successively held several positions including the deputy general manager and the general manager of the investment department, and the investment director of Hebei Province Construction & Investment Group Co., Ltd.* (河北省建設投資集團有限責任公司) from July 1991 to March 2014. From June 2013 to August 2014, he served as the vice chairman of the board and a non-executive director of China Suntien Green Energy Corporation Limited* (新天綠色能源股份有限公司), a company listed on the Stock Exchange (stock code: 00956), which was engaged in exploitation and utilization of clean energy and new energy. From March 2014 to July 2016, Mr. Ma served as a director of the board and the vice president of Gaokang Capital Investment Management Co., Ltd.* (高康資本投資管理有限公司). Since September 2015, Mr. Ma has been serving as a director of Beijing Zhongyan Dadi Technology Co., Ltd.* (北京中巖大地科技股份有限公司), a company listed in National Equities Exchange and Quotations (全國中小企業股份轉讓系統) (stock code: 835524), which provides technology research and development and services in geotechnical engineering integration, underground space exploitation and environmental modification. Since September 2016, he has been serving as the assistant to the general manager of Yan Zhao Property Insurance Co., Ltd.* (燕趙財產保險股份有限公司).

Mr. Ma graduated from Hebei University (河北大學) in Baoding, the PRC, with a bachelor's degree in economics in July 1991; Hebei University of Technology (河北工業大學) in Tianjin, the PRC, with a master's degree in business administration in December 2004; Tianjin University (天津大學) in Tianjin, the PRC, with a master's degree of business administration for senior management in July 2007; and Hebei University of Technology (河北工業大學) in Tianjin City, the PRC, with a doctor's degree of management in June 2010. He was accredited as the senior economist by the Hebei Title Reform Office in December 2008.

Mr. Yao Zhijun (姚志軍), aged 48, was appointed as an independent non-executive Director on 19 January 2017 and is responsible for providing independent opinion and judgment to the Board.

Prior to joining the Group, he served as the head and the legal representative of Hebei Huayide Certified Public Accountants* (河北華益德會計師事務所有限公司) from January 2004 to November 2005, the head of Beijing China Enterprise Appraisals Juncheng Certified Public Accountants* (北京中企華君誠會計師事務所) Hebei Branch from December 2005 to November 2008 and the head of the Zhongxinghua Fuhua Certified Public Accountants* (中興華富華會計師事務所) Hebei Branch from December 2008 to January 2012. Since February 2012, he has been serving as the general manager of Ruihua Certified Public Accountants (Special General Partnership)* (瑞華會計師事務所(特殊普通合夥)) Hebei Branch.

Mr. Yao graduated from Hebei College of Finance and Economics* (河北財經學院) (currently known as Hebei University of Economics and Business (河北經貿大學)) in Shijiazhuang, Hebei Province, the PRC, with a bachelor's degree in economics in June 1994. He was accredited as a certified public accountant by the Hebei Institute of Certified Public Accountants (河北省註冊會計師協會) in June 1999 and as a senior accountant granted by the Hebei Title Reform Office in November 2005. He obtained the qualification of a certified public valuer approved by China Appraisal Society (中國資產評估協會) in April 2000. In July 2005, Mr. Yao was awarded as a brilliant certified accountant in Hebei Province and in March 2015, he was awarded as a senior fellow member by the Chinese Institute of Certified Public Accountants (中國註冊會計師協會).

Mr. Wan Joseph Jason (尹宸賢), aged 46, was appointed as an independent non-executive Director on 6 March 2019 and is responsible for providing independent opinion and judgment to the Board. Mr. Wan has over 20 years of experience in investment banking, corporate finance and regulatory areas.

Prior to joining the Group, he has worked with various reputable international financial institutions and the Listing Division of the Hong Kong Exchanges and Clearing Limited. Mr. Wan is currently the deputy general manager and the head of Investment Banking Department of Dongxing Securities (Hong Kong) Financial Holdings Limited (東興證券(香港)金融控股有限公司) which is an affiliated member of China Orient Asset Management Corporation (中國東方資產管理公司) and a responsible officer licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. From 25 May 2018, he has been serving as an independent non-executive director of Forgame Holdings Limited (雲游控股有限公司) (a company listed on the Main Board of the Stock Exchange, stock code: 484).

Mr. Wan graduated from the University of Southern California (南加州大學) in May 1994 with double bachelor's degree in economics & finance.

SENIOR MANAGEMENT

Mr. Xu Min (許敏), aged 40, was appointed as an executive president of the Company on 17 December 2018, and was appointed as the chief operating officer of the Company on 28 January 2019, primarily responsible for the strategic investment, daily operation management and overall operation of internet business division of the Group. Mr. Xu has over 10 years of experience in corporate management and IT consultation services.

Mr. Xu served as project manager and deputy branch manager of Qingdao Haixin Computer Co., Ltd. (青島海信計算機有限公司) from September 2000 to December 2002. From January 2003 to January 2011, he served as product manager of IT business division, key account manager and sales director of Founder Group (北大方正集團). From February 2011 to December 2014, he served as manager and executive assistant of North China of IBM (China) Co., Ltd. (IBM(中國)有限公司). From January 2015 to December 2018, he served as the chief executive officer of Xin Tian Di Xian.

Mr. Xu graduated from Xidian University (西安電子科技大學) in 2009 with a master's degree in business administration.

Mr. Wang Yongsheng (王永生), aged 49, was appointed as the vice president and chief financial officer of the Company on 23 November 2015, primarily responsible for the financial management and fund planning of the Group. Mr. Wang has over 25 years of experience in accounting and finance.

From August 1993 to July 2005, Mr. Wang served as an accountant of Shijiazhuang Chemical Fiber Co., Ltd.* (石家莊化工化纖有限公司). From July 2005 to November 2007, Mr. Wang served as the chief financial officer of Shijiazhuang Yongtong Chemical Co., Ltd.* (石家莊永通化工有限公司) and served as the investment and budget manager of Lionful Investment Holding from November 2007 to March 2009. Mr. Wang joined the Group in April 2009 and served as an assistant to president of Shijiazhuang Institute of Technology from April 2009 to April 2011. Subsequently, he served as the assistant to general manager of Shijiazhuang Saintach from April 2011 to April 2014. From April 2014 to August 2017, Mr. Wang successively served as the deputy chief financial officer, chief financial officer and vice president of Lionful Education.

Mr. Wang graduated from Zhengzhou Textile Institute of Technology* (鄭州紡織工學院) (currently known as Zhongyuan University of Technology (中原工學院)) in Zhengzhou, Henan Province, the PRC, with a junior college graduation certificate in industrial accounting in July 1993 and graduated from Zhengzhou University (鄭州大學) in Zhengzhou, Henan Province, the PRC, with a bachelor's degree (online education) in management in June 2012. He obtained the accountant certificate granted by the Ministry of Finance of the PRC in May 1997.

Mr. Mao Lei (毛磊), aged 62, professor and tutor of postgraduates, joined the Group on 7 January 2019, and was appointed as the principal of Shijiazhuang Institute of Technology, primarily responsible for the teching management of Shijiazhuang Institute of Technology. Mr. Mao has over 30 years of experience in the education industry.

From September 1992 to March 1996, Mr. Mao successively served as deputy director and director of the teaching and research section of Hebei Institute of Mechanical and Electrical Engineering (河北機電學院), secretary to the party branch of the teaching and research section, and member of the general party branch of the department. From June 1998 to December 2012, Mr. Mao successively served as deputy director of the academic affairs office and deputy director of the department of materials, dean of the material science and engineering department, deputy director of the academic committee and director of the academic affairs office of Hebei University of Science and Technology (河北科技大學). Mr. Mao served as vice principal of Hebei GEO University (河北地質大學) from December 2012 to December 2017. Since September 2001, Mr. Mao has served as a director of the Chinese Heat Treatment Society (全國熱處理學會) and chairman of Hebei Heat Treatment Society (河北省熱處理學會).

Mr. Mao graduated from Hebei Institute of Mechanical and Electrical Engineering (河北機電學院) in Shijiazhuang City, Hebei Province, the PRC in March 1982 with a bachelor's degree in engineering, and graduated from Northeastern Institute of Technology (東北工學院) (now known as Northeastern University (東北大學)) in Shenyang, Liaoning Province, the PRC in January 1989 with a master's degree in engineering.

Ms. Wang Lijing (王利靜), aged 38, was appointed as the general manager of Hebei Saintach on 7 June 2016 and appointed as the excuetive president of the Company on 19 January 2017, primarily responsible for the overall operation and daily management of Hebei Saintach. Ms. Wang has over 15 years of experience in the education industry and corporate management.

Ms. Wang joined the Group in July 2003 and as an editor of advertising department and human resources manager of human resource department of the Company from July 2003 to March 2005, and as the secretary of Youth League Committee of Shijiazhuang Institute of Technology from March 2005 to May 2010. From May 2010 to July 2011, she served as the principal of Shijiazhuang City Qiaoxi District Blue Crystal Saintach Kindergarten* (石家莊市橋西區新天際藍水晶幼兒園) ("Blue Crystal Kindergarten"). Since July 2011, Ms. Wang has successively served as the assistant to general manager, deputy general manager and general manager of Hebei Saintach, and a director of Hebei Saintach since 22 December 2015. Since July 2013, Ms. Wang has been serving as a member of the second session council of the Preschool Education Committee of The China Association for Non-government Education (中國民辦教育協會學前教育專業委員會) for a term of five years. Since July 2018, Ms. Wang has served as the vice chairman of the third session of the Preschool Education Committee of The China Association for Non-government Education (中國民辦教育協會學前教育專業委員會) for a term of five years. Since October 2018, Ms. Wang has served as the chairman of the Practical Teaching Committee of the Preschool Education and Occupational Education Group of Hebei Province (河北省學前教育職教集團).

Ms. Wang graduated from Hebei University (河北大學) in Baoding, Hebei Province, the PRC, with a bachelor's degree of art majoring in Chinese literature (漢語言文學) in June 2003. She obtained the qualification as a teacher of higher education granted by the Education Department of Hebei Province (河北省教育廳) in December 2005. In May 2018, Ms. Wang obtained the preschool education certificate from American Montessori Society (AMS).

Mr. Zheng Tieqiu (鄭鐵球), aged 35, was appointed as an assistant to the chief executive officer of the Company on 17 October 2018, and was appointed as a joint company secretary of the Company on 28 January 2019, primarily responsible for the capital operations, corporate governance and brand management of the Group. Mr. Zheng has over 8 years of experience in the corporate governance, capital operations and corporate management of listed companies.

From July 2010 to July 2012, he served as investor relations manager and securities affairs representative in Telling Telecommunication Holding Co., Ltd. (天音通信控股股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 000829). From August 2012 to March 2017, he served as the capital operations manager of the board office and listing office of China Huarong Asset Management Co., Ltd. (中國華融資產管理股份有限公司) (a company listed on the Main Board of the Stock Exchange, stock code: 2799). From March 2018 to September 2018, he served as the secretary of the board and assistant vice president of GCL System Integration Technology Co., Ltd. (協鑫集成科技股份有限公司) (a company listed on Shenzhen Stock Exchange, stock code: 002506).

Mr. Zheng graduated from Renmin University of China in July 2010 with a master's degree in industrial economics.

Mr. Wei Lei (魏雷), aged 38, was appointed as as an assistant to the chief executive officer of the Company on 7 January 2019, primarily responsible for the management of human resources and administrative affairs of the Group. Mr. Wei has over 10 years of experience in corporate management and human resources management.

From 2005 to 2010, Mr. Wei successively served as the deputy chief and chief of the corporate management and human resources section of Shijiazhuang Zhengyuan Chemical Co., Ltd.* (石家莊正元化工有限公司). From July 2010 to November 2012, he successively served as assistant general manager and general manager of human resources department of Lionful Investment Holding. From December 2012 to April 2014, he served as assistant to the president of Beijing Yi Jia Er United Real Estate Holdings Co., Ltd.* (北京壹加貳聯合不動產控股有限公司). From May 2014 to December 2016, he served as the general manager of the human resources and administration department of Lionful Investment Holding. From January 2017 to September 2018, he served as vice president of Hebei Anlian Real Estate Development Co., Ltd.* (河北安聯房地產開發有限公司) Ningbo Branch. Mr. Wei joined the Group in October 2018 and served as dean assistant of Shijiazhuang Institute of Technology from October 2018 to December 2018.

Mr. Wei graduated from Hebei University (河北大學) in 2015 with a master's degree in business administration.

Save as disclosed above, the Directors confirm that, no information is required to be disclosed pursuant to Rule13.51B(1) of the Listing Rules.

VI. Directors' Report

The Board is pleased to present the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "Reporting Period").

COMPANY PROFILE AND INITIAL PUBLIC OFFERING

The Company was incorporated as an exampted company with limited liability in the Cayman Islands on 20 September 2016. The princal place of business of the Company in Hong Kong is located at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

The Shares were listed (the "Listing") on the Main Board of the Stock Exchange on 29 May 2018.

PRINCIPAL ACTIVITIES

The Company is a large established private education service provider based in the area of Beijing, Tianjin and Hebei Province. Following the core philosophy of "Assisting you in your whole life", we unremittingly provide clients with customized services and solutions based on individual demand, including preschool students in our kindergartens, primary school, middle school and high school students in our tutorial centers and junior college, secondary school and continuing education students in our college.

The activities and particulars of the Company's subsidiaries are set out in note 1 to the consolidated financial statements. An analysis of the Group's revenue and net results for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report.

RESULTS

The annual results for 2018 and the financial position as at 31 December 2018 of the Group are set out on pages 117 to 191 of the audited consolidated financial statements in this annual report.

FINANCIAL SUMMARY

The results of the Group for the past four financial years are set out in the section headed "Financial and Opearting Highlights" on pages 7 to 8 of this annual report. The summary does not form part of the audited consolidated financial statements.

BUSINESS REVIEW

Please refer to the section headed "Management Discussion and Analysis" on pages 9 to 14 in this annual report for details of the business conditions for 2018 and the outlook for 2019 of the Company and the Group. Save for the events disclosed in the "Events after the Reporting Period" under the "Management Discussion and Analysis", there was no significant event from 31 December 2018 up to the date of this annual report that had impact on the Group.

In 2018, the Company and the Group strictly complied with the relevant laws, regulations and environmental policies in China, and established corresponding mechanisms for compliance operation.

MAJOR RISKS AND UNCERTAINTIES

We are exposed to the risks relating to our business and industry and regulatory changes, including but not limited to the following:

- our business operations and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals and our ability to implement such strategies, plans, objectives and goals;
- our ability to maintain or increase student enrollment;
- our ability to maintain or raise tuition;
- our ability to maintain or increase our school utilisation;
- general economic conditions;
- our capital expenditure programs and future capital requirements;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments; and
- the actions and developments of our competitors.

For details of the risk factors, please refer to the section headed "Risk Factors" in the Prospectus. Investors are advised to make their own judgment or consult their own investment advisors before making any investment in the Shares.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As an education enterprise, the Company does not cause any material impact on the environment during its daily operations. Despite this, the Company still attaches great importance to environmental protection, advocates the concept of low-carbon operation, and strives to integrate the concept of environmental protection into the cultivation and education of the new generation. During the Reporting Period, the Company did not have any non-compliance relating to environmental protection. The details are set out in the Environmental, Social and Governance ("ESG") report on pages 81 to 111 of this annual report.

KEY RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of the support from employees, suppliers and customers to the achievement of a company's goals. Therefore, the Group maintains good relationships with employees, suppliers and customers.

PROTERTY, SCHOOL PREMISES AND EQUIPMENT

Changes in the property, school premises and equipment of the Group in 2018 are set out in note 13 to the audited consolidated financial statements.

SHARE CAPITAL

As of the date of this annual report, the authorized share capital of the Company is HK$30,000,000 divided into 3,000,000,000 Shares of HK$0.01 each. As of the date of this annual report, the number of issued and paid-up Shares is 1,220,541,000. Details of the changes in the share capital of the Company during the Reporting Period are set out in note 26 to the consolidated financial statements in this annual report.

TAXATION

The information on the taxation of the Company and the Group in 2018 is set out in note 10 to the audited consolidated financial statements.

EVENTS SUBSEQUENT TO THE END OF REPORTING PERIOD

Details of the event of the Group subsequent to the end of Reporting Period are set out in note 38 to the audited consolidated financial statements.

DISTRIBUTABLE RESERVE

Details of the changes in the reserve of the Company and the Group in 2018 are set out in note 37 to the audited consolidated financial statements and the consolidated statement of changes in equity on pages 120 to 121, and the reserve distributable to the Shareholders amounted to approximately RMB313 million as at 31 December 2018.

PROFIT DISTRIBUTION

The Directors do not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: Nil).

ANNUAL GENERAL MEETING

The Company will hold the annual general meeting (the "AGM") on Wednesday, 26 June 2019. A notice convening the AGM will be published and despatched to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the entitlement of Shareholders to attend and vote at the AGM to be held on Wednesday, 26 June 2019, the register of members of the Company will be closed from Friday, 21 June 2019 to Wednesday, 26 June 2019, both days inclusive, during which no transfer of Shares will be registered. The record date for determing the eligibility to attend and vote at the AGM is Wednesday, 26 June 2019. In order to be eligible to attend and vote at the AGM, all transfer of Shares with stamp duty duly paid accompanied by the relevant share certificates must be lodged by the Shareholders with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 20 June 2019.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF THE COMPANY

On 29 May 2018, the Company issued 360,000,000 Shares at a price of HK$1.13 per Share pursuant to the initial public offering of Shares, and the total proceeds of which amounted to approximately HK$408.9 million, and the Shares were listed on the Main Board of the Stock Exchange. On 17 June 2018, the Company issued 36,000,000 Shares at a price of HK$1.13 per Share pursuant to a partial exercise of over-allotment options relating to Listing, and the total proceeds of which amounted to approximately HK$40.7 million. The net proceeds from the Listing (net of underwriting fees and relevant expenses) amounted to approximately HK$433 million. The amount will be applied in the following manners as set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus:

	Intended use of net proceeds (HK$ million)	Actual use of net proceeds up to 31 December 2018 (HK$ million)	Remaining balance up to 31 December 2018 (HK$ million)	Expected time of full utilisation of Remaining balance
Acquire and rebrand third-party kindergartens in order to expand our Saintach Kindergarten network in the Integrated Area by end of 2020(1)	173.2	–	173.2	31 December 2020
Expand our Saintach Tutorial Center network in the Integrated Area through acquisition of third party tutorial schools primarily engaged in providing small-group tutoring services by the end of 2020	86.6	–	86.6	31 December 2020
Maintain, renovate and upgrade the facilities, equipment and infrastructure of our schools and tutorial centers and improve student accommodation, campus environment and teaching conditions at Shijiazhuang Institute of Technology	86.6	13.2	73.4	31 December 2019
Establish our presence overseas and obtain experience in operating schools abroad	43.3	–	43.3	30 June 2020
Fund our working capital and general corporate purposes	43.3	8.8	34.5	30 June 2020
Total	433.0	22.0	411.0	

Note:

(1) The Company will continue to keep eyes on the promulgation and implementation of the laws and regulations by central and local government authorities relating to preschool education, and will make adjustments and changes to the existing uses of the proceeds raised regarding preschool education of the Company and make disclosures by way of announcement when appropriate.

MAJOR CUSTOMERS AND SUPPLIERS

Our customers primarily consist of (i) our students and their parents, (ii) Lionful Education on behalf of whom we provide school operation services, and (iii) third-party educational institutions with whom we have cooperated and our franchised kindergartens. The transaction volume of the Group with its top five customers in 2018 accounted for approximately 13.9% of the Group's operating revenue in 2018. Our largest customer during the Reporting Period was Lionful Education, a related party of the Group, which accounted for approximately 9.2% of our operating revenue for the year ended 31 December 2018.

Our suppliers primarily comprise food, utilities and property service providers. For the year ended 31 December 2018, purchases recorded in the cost of sales account from our five largest suppliers accounted for approximately 5.8% of our cost of sales. The transaction amount with the single largest supplier of the Group accounted for apprixmately 2.3% of the material cost included in the cost of sales for the year.

Save as disclosed above, none of the Directors, their associates or our Shareholders who, to the knowledge of the Directors, own more than 5.0% of our share capital, had any interest in any of the abovementioned top five suppliers or top five customers of the Group in 2018.

BANK AND OTHER BORROWINGS

Details of the bank and other borrowings of the Group as at 31 December 2018 are set out in note 23 to the audited consolidated financial statements.

DONATION

In 2018, the Group did not make any donation.

DIRECTORS AND SENIOR MANAGEMENT

(1) The Board is responsible for, and has the general power to, the management and operations of our business.

The Board currently consists of 8 Directors, including 5 executive Directors and 3 independent non-executive Directors. The following table sets out the information of the members of the Board:

Name	Positions	Responsibilities
Li Yunong	Chairman of the Board and executive Director	Overall formulation, guidance of business strategy and development of the Group
Liu Zhanjie	Vice Chairman of the Board and executive Director	Promoting the implementation of major events of the Group in line with the business strategy of the Group
Liu Hongwei	Chief Executive Officer and executive Director	Overall operation and development of the Group
Ren Caiyin	Executive president, executive Director and president of tertiary education segment	Overall operation and daily management of the tertiary education section of the Group
Yang Li	Executive Director	Research on marketing strategies of the Group
Guo Litian	Independent non-executive Director	Providing independent opinion and judgment to the Board
Ma Guoqing①	Former independent non-executive Director	Providing independent opinion and judgment to the Board
Yao Zhijun	Independent non-executive Director	Providing independent opinion and judgment to the Board
Wan Joseph Jason②	Independent non-executive Director	Providing independent opinion and judgment to the Board

Notes:

① Resigned on 6 March 2019

② Appointed on 6 March 2019

According to Article 83(3) of the articles of association ("Articles of Association") of the Company, any Director appointed to fill a casual vacancy on the Board or as an addition to the existing Board shall hold office until the first general meeting of Shareholders after his/her appointment. As such, Mr. Wan Joseph Jason shall hold office as Directors until the AGM and be subject to re-election.

According to Article 84(1) of the Articles of Association, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years, pursuant to which, Mr. Li Yunong, Mr. Liu Zhanjie and Ms. Liu Hongwei shall retire by rotation at the AGM and, being eligible, have offered themselves for re-election as Directors thereat.

Details of the Directors who offer themselves for re-election at the AGM are set out in the circular to the Shareholders dated 29 April 2019.

2. The following table sets out the information of the senior management members of the Company:

Name	Positions	Responsibilities
Liu Qingli①	Former executive president and Chief Operating Officer	Human resources, legal compliance, operations and daily management of the Group
Xu Min②	Executive president and Chief Operating Officer	Strategic investment, operation and daily management of the Group, and overall operation and daily management of the Group's Internet business segment
Wang Yongsheng	Vice president and Chief Financial Officer	Financial management and fund planning of the Group
Liu Cai③	Former principal of Shijiazhuang Institute of Technology	Teaching management of Shijiazhuang Institute of Technology
Mao Lei④	Principal of Shijiazhuang Institute of Technology	Teaching management of Shijiazhuang Institute of Technology
Wang Lijing	Executive president and general manager of Hebei Saintach	Overall operation and daily management of early childhood education of the Group
Zheng Tieqiu	Assistant to president and joint company secretary	Capital operations, corporate governance and brand management of the Group
Wei Lei④	Assistant to president	Management of human resources and administrative affairs of the Group

Notes:

① Resigned on 28 January 2019

② Appointed as executive president on 17 December 2018, and appointed as chief operating officer and concurrently executive president on 28 January 2019

③ Resigned on 7 January 2019

④ Appointed on 7 January 2019

CHANGES IN DIRECTORS AND SENIOR MANAGEMENT

On 17 October 2018, the Company appointed Mr. Zheng Tieqiu as the assistant to president of the Company.

On 17 December 2018, the Company appointed Mr. Xu Min as the executive president and president of internet business segment of the Company; on 28 January 2019, Mr. Xu Min was appointed as the chief operating officer and concurrently as executive president and president of the internet business segment.

On 7 January 2019, the Company appointed Mr. Wei Lei as the assistant to president of the Company.

On 7 January 2019, Mr. Liu Cai resigned as the principal of Shijiazhuang Institute of Technology for personal reasons, and on the same day, the Company appointed Mr. Mao Lei as the principal of Shijiazhuang Institute of Technology.

On 7 January 2019, the Board redesignated Mr. Liu Zhanjie as vice chairman of the Board and concurrently as executive Director, and re-designated Ms. Liu Hongwei as executive president of the Company and concurrently as executive Director.

On 28 January 2019, Ms. Liu Qingli resigned as the executive president, chief operating officer and joint company secretary of the Company due to changes in work arrangements.

On 6 March 2019, Mr. Ma Guoqing resigned as an independent non-executive Director, a member of the audit committee of the Board (the "Audit Committee") and the nomination committee of the Board (the "Nomination Committee") and the chairman of the remuneration committee of the Board (the "Remuneration Committee") for personal reasons.

On 6 March 2019, Mr. Wan Joseph Jason was appointed as an independent non-executive Director, a member of the Audit Committee and the Nomination Committee and the chairman of the Remuneration Committee.

Save as disclosed above, the Company did not appoint or dismiss any Director or senior management member during the Reporting Period. Moreover, save as disclosed above, as of the date of this annual report, there is no change in the information required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules regarding Directors and executive presidents.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 22 to 28 in this annual report.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS ON INDEPENDENCE

The Company has received the confirmation of each independent non-executive Director on his independence in accordance with Rule 3.13 of the Listing Rules, and the Company considers that all independent non-executive Directors are independent during the period from Listing Date to 31 December 2018 and up to the date of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing on the Listing Date, which may be renewable for three years and subject to termination in accordance with the provisions of the service contract.

Mr. Guo Litian and Mr. Yao Zhijun have each entered into a letter of appointment with the Company for a term of one year commencing on the Listing Date, which may be subject to termination in accordance with the provisions of the letter of appointment. Mr. Wan Joseph Jason has entered into a letter of appointment with the Company for a fixed term of one year, commencing from 6 March 2019, which is subject to termination in accordance with the provisions of the letter of appointment.

None of the Directors has entered into any service contract or letter of appointment with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the Directors and senior management of the Company, having regard to the Group's operating results, individual performance of the Directors and senior management of the Company and comparable market practices. Details of the emoluments of the Directors and five highest paid individuals during the Reporting Period are set out in note 8 and note 9 to the consolidated financial statements in this annual report.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed in 2018.

DIRECTORS AND CONTROLLING SHAREHOLDERS' SIGNIFICANT INTERESTS IN CONTRACTS, TRANSACTIONS OR ARRANGEMENTS

Save for those disclosed in note 33 "Related Party Transactions" to the consolidated financial statements and the section headed "Connected Transactions" in this annual report, no Directors or entities related to the Directors still have or used to have any significant interest directly or indirectly in any contract, transaction or arrangement of the Company or any of its subsidiaries that remained in effect during or as at the end of the year ended 31 December 2018 and was significant to the business of the Group.

Save for those disclosed in note 33 "Related Party Transactions" to the consolidated financial statements and the section headed "Connected Transactions" in this annual report, at no time during the year ended 31 December 2018 had the Company or any of its subsidiaries entered into any contract of significance with the Controlling Shareholders or any of their subsidiaries, nor had any contract of significance been entered into for the services provided by the Controlling Shareholders or any of their subsidiaries to the Company or any of its subsidiaries.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

In 2018, none of the Directors or their associates has any competing interests in any business which competes or is likely to compete with that of the Company, either directly or indirectly.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at 31 December 2018, the Directors and chief executive of the Company had the following interests and short positions in the Shares, underlying shares or debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules:

Director	Nature of interest	Number of Shares[(2)]	Long position/ short position	Approximate percentage of shareholding[(3)]
Mr. Li Yunong[(1)]	Interest in a controlled corporation	747,264,000 (L)	Long position	61.01%
Mr. Liu Zhanjie[(4)]	Beneficial owner	1,140,000 (L)	Long position	0.09%
Ms. Yang Li[(4)]	Beneficial owner	570,000 (L)	Long position	0.05%
Ms. Liu Hongwei[(4)]	Beneficial owner	555,000 (L)	Long position	0.05%
Mr. Ren Caiyin[(4)]	Beneficial owner	555,000 (L)	Long position	0.05%

Notes:

(1) Mr. Li Yunong is the sole shareholder of Sainange Holdings Company Limited ("Sainange Holdings") and he is therefore deemed to be interested in the Shares held by the Sainange Holdings by virtue of the SFO, being 747,264,000 Shares.

(2) The letter (L) denotes a long position in such securities.

(3) As at 31 December 2018, the number of the issued shares of the Company was 1,224,798,000 Shares.

(4) The Director is interested in the underlying Shares by virtue of the Options (as defined below) granted to him/her under the Share Option Scheme (as defined below). For further details, please refer to the section headed "Share Option Scheme" in this annual report.

Save as disclosed above, as at 31 December 2018, none of the Directors nor chief executive of the Company has or is deemed to have interests or short positions required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which were taken or deemed to have under such provisions of the SFO), or interests or short positions to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or interests or short positions which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code in the Shares, underlying Shares or the debentures of the Company or its associated corporation (as defined in Part XV of the SFO).

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

So far as the Directors are aware, as at 31 December 2018, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or to be recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name	Nature of interest	Number of Shares[5]	Approximate percentage of shareholding[6]
Mr. Li Yunong[1][2]	Interest in a controlled corporation	747,264,000 (L)	61.01%
Ms. Cao Yang[2]	Spouse interest	747,264,000 (L)	61.01%
Sainange Holdings	Beneficial owner	747,264,000 (L)	61.01%
Ms. Luo Xinlan[3][4]	Interest in a controlled corporation	92,736,000 (L)	7.57%
Mr. Cao Jide[4]	Spouse interest	92,736,000 (L)	7.57%
Sainray Limited	Beneficial owner	92,736,000 (L)	7.57%

Notes:

(1) Mr. Li Yunong is the sole shareholder of Sainange Holdings and he is therefore deemed to be interested in the Shares held by the Sainange Holdings by the virtue of the SFO, being 747,264,000 Shares.

(2) Ms. Cao Yang is the spouse of Mr. Li Yunong and she is therefore deemed to be interested in the Shares in which Mr. Li Yunong is interested by the virtue of the SFO.

(3) Ms. Luo Xinlan is the sole shareholder of Sainray Limited and she is therefore deemed to be interested in the Shares held by Sainray Limited by the virtue of the SFO, being 92,736,000 Shares.

(4) Mr. Cao Jide is the spouse of Ms. Luo Xinlan and he is therefore deemed to be interested in the Shares in which Ms. Luo Xinlan is interested by the virtue of the SFO.

(5) The letter (L) denotes a long position in such securities.

(6) As at 31 December 2018, the number of the issued shares of the Company was 1,224,798,000 Shares.

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other person (other than the Directors or chief executive of the Company) had any interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company was approved to adopt a share option scheme (the "Share Option Scheme") on 4 May 2018. For details of the terms of the Share Option Scheme, please refer to Appendix V to the Prospectus.

(1) Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraphs) an opportunity to have a personal stake in the Company and help motivate Eligible Persons to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going cooperation relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

(2) Who may join

The Board may, at its absolute discretion, offer share options ("Options") to the Eligible Persons for subscribing for such number of Shares in accordance with the terms set out in the Share Option Scheme:

a. Any executive director, manager or other employee holding administrative, managerial, regulatory positions or similar positions in any member of the Group ("Executives"), any employee candidate, full-time or part-time employee, or any person who is temporarily transferred to any member of the Group for full-time or part-time work ("Employees");

b. Directors or nominated directors (including independent non-executive directors) of any member of the Group;

c. Direct or indirect shareholders of any member of the Group;

d. Suppliers who supply goods or services to any member of the Group;

e. Customers, consultants, business or joint venture partners, franchisees, contractors, agents or representatives of any member of the Group;

f. Individuals or entities who provide any member of the Group with the design, research, development or other support or any advice, consultancy, professional or other services; and

g. The associates of any person mentioned in paragraphs a to f above (the above persons are collectively referred to as "Eligible Persons").

(3) Maximum Number of Shares

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as of the Listing Date (such 10% limit representing 120,000,000 Shares excluding Shares which may fall to be issued upon exercise of the over-allotment option granted by the Company) (the "Scheme Mandate Limit") provided that:

a. The Company may at any time as the Board may think fit seek approval from the Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as of the date of approval by the Shareholders of the refreshment of Scheme Mandate Limit in general meeting. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send a circular to the Shareholders containing the details and data required under the Listing Rules;

b. The Company may seek separate approval from the Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by the Company before such approval is obtained. The Company should send a circular to the Shareholders containing the details and data required under the Listing Rules; and

c. The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time. No Options may be granted under the Share Option Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.

(4) Term for Acceptance and Exercise of Options

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

Any offer of the grant of Options may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number shall be clearly stated in the duplicate offer letter comprising acceptance of the offer of Options. To the extent that the offer of the grant of Options is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

Subject to the terms of the Share Option Scheme, the Scheme shall be valid and effective for a period of ten years from the date on which it becomes unconditional.

(5) Lapse of Share Option Scheme

The Share Option Scheme will lapse automatically and not be exercisable under the circumstances set out in "Appendix V – Statutory and General Information – 13. Lapse of Share Option Scheme" of the Prospectus. No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

Details of the changes in the Options under the Share Option Scheme for the year ended 31 December 2018 and the Options outstanding as at the Listing Date and the end of the year are set out below:

		Number of Options									
Name of grantee	Date of grant	As at the Listing Date	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ forfeited during the year	Outstanding as at 31 December 2018	Exercise price per Share (HKD)	Share price immediately prior to the date of grant (HKD per Share)	Fair value of Options (HKD per Share)	Exercise period
Mr. Liu Zhanjie (vice Chairman of Board and executive Director)	11 October 2018	–	342,000	–	–	–	342,000	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	–	342,000	–	–	–	342,000	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	–	456,000	–	–	–	456,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023
Ms. Liu Hongwei (chief executive officer and executive Director)	11 October 2018	–	166,500	–	–	–	166,500	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	–	166,500	–	–	–	166,500	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	–	222,000	–	–	–	222,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023
Mr. Ren Caiyin (executive president and executive Director)	11 October 2018	–	166,500	–	–	–	166,500	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	–	166,500	–	–	–	166,500	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	–	222,000	–	–	–	222,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023

Name of grantee	Date of grant	Number of Options: As at the Listing Date	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled/ forfeited during the year	Outstanding as at 31 December 2018	Exercise price per Share (HKD)	Share price immediately prior to the date of grant (HKD per Share)	Fair value of Options (HKD per Share)	Exercise period
Ms. Yang Li (executive Director)	11 October 2018	–	171,000	–	–	–	171,000	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	–	171,000	–	–	–	171,000	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	–	228,000	–	–	–	228,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023
		–	2,820,000	–	–	–	2,820,000				
Total for employees	11 October 2018	–	711,000	–	–	–	711,000	0.964	0.950	0.449	11 October 2019 to 10 October 2023
	11 October 2018	–	711,000	–	–	–	711,000	0.964	0.950	0.449	11 October 2020 to 10 October 2023
	11 October 2018	–	948,000	–	–	–	948,000	0.964	0.950	0.449	11 October 2021 to 10 October 2023
Total		–	5,190,000	–	–	–	5,190,000				

The values of Options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The value of an Option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an Option.

Further details of the Share Option Scheme are set out in note 27 to the consolidated financial statements in this annual report.

BONDS ISSUED

The Company did not have any bonds in issue or existence for the year ended 31 December 2018.

SHARE-LINKED AGREEMENT

For the year ended 31 December 2018, save for the Share Option Scheme as set out above, the Company did not enter into or have any share-linked agreement, and was not obligated to enter into any agreement which will or may cause the Company to issue any Share.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES

For the year ended 31 December 2018, the Company purchased a total of 15,459,000 Shares at a total purchase price (net of expenses) of approximately HK$14,907,000 on the Stock Exchange. The reason for such Share repurchases was that the Board believed that the Shares had been trading at a level which significantly undervalued the Company's performance and underlying value, and since the Board is committed to actively managing the Company's capital, such Share repurchases would create capital management benefits to the Shareholders. All the Shares so purchased had been cancelled by the Company on 28 December 2018 and 22 February 2019, respectively. The details of purchase of these Shares are set out as follows:

Month of purchase	Number of Shares purchased	Maximum price paid per Share (HKD)	Minimum price paid per Share (HKD)	Total purchase price (HKD'000)
October 2018	3,270,000	0.9900	0.8872	3,061
November 2018	9,228,000	1.0800	0.8900	9,136
December 2018	2,961,000	0.9500	0.8800	2,710
Total	15,459,000			14,907

PRE-EMPTIVE RIGHT

There is no provision of pre-emptive right in the Articles of Association and the laws of Cayman Islands that requires the Company to offer new Shares to the existing Shareholders on a pro rata basis.

PERMITTED INDEMNITIES

For the year ended 31 December 2018, the Company did not have any permited indemnities that used to take effect or was effective in favor of any Director (whether entered into by the Company or not) or any director of any company associated with the Company (if entered into by the Company).

The Company has purchased liability insurance for the relevant legal proceedings that the Directors may be involved in.

REMUNERATION POLICY

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

The Directors and senior management of the Company may also receive Options to be granted under the Share Option Scheme. For further details of the Share Option Scheme, please refer to "F. Share Option Scheme" in Appendix V of the Prospectus. Details of the remuneration of the Directors, and five highest paid individuals during the Reporting Period are set out in notes 8 and 9 to the consolidated financial statements.

PENSION AND EMPLOYEE BENEFIT SCHEMES

Details fo the Group's pension and employee benefit scheme are set out on pages 149 to 150 in note 2.4 to the consolidated financial statements in this annual report.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Please refer to the section headed "Corporate Governance Report" on pages 65 to 80 in this annual report.

AUDIT COMMITTEE

For the year ended 31 December 2018, the Audit Committee comprised three independent non-executive Directors, namely Mr. Yao Zhijun (chairman), Mr. Guo Litian and Mr. Ma Guoqing.

On 6 March 2019, Mr. Ma Guoqing resigned as, among other things, an independent non-executive Director and a member of the Audit Committee and Mr. Wan Joseph Jason was appointed as the same. Consequently, as at the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Yao Zhijun (chairman), Mr. Guo Litian and Mr. Wan Joseph Jason.

The Audit Committee has adopted the terms of reference which are in line with the Corporate Governance Code (the "CG Code") as set out in the Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include reviewing and monitoring the financial control, risk management and internal control systems and procedures of the Group, reviewing the financial information of the Group and the relationship with the external auditor of the Company. The annual results and the consolidated financial report of the Group for the year 2018 have been reviewed by the Audit Committee.

AUDITORS

Ernst & Young were appointed as the auditors of the Company for the year ended 31 December 2018. Ernst & Young have audited the consolidated financial statements as attached which were prepared in accordance with International Financial Reporting Standards.

Ernst & Young shall retire at the forthcoming AGM, and, being eligible, offers itself for re-appointment. The resolution for re-appointing Ernst & Young as the auditors of the Company will be submitted to the AGM.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received a letter of confirmation from each of the Controlling Shareholders that they complied with all the undertakings made in the non-competition undertakings provided to the Company in 2018. For details of the non-competition undertakings, please refer to the Prospectus.

The independent non-executive Directors have reviewed the performance of the non-competition undertakings during the Reporting Period based on the information and letters of confirmation provided by or obtained from the Controlling Shareholders, and are satisfied that the Controlling Shareholders have complied with and enforced the non-competition undertakings.

PUBLIC FLOAT

According to the public information available to the Company and to the best knowledge of the Directors, at any time during the Reporting Period and up to the date of this annual report, at least 25% (i.e. the minimal public float percentage as required by the Stock Exchange and the Listing Rules) of the total issued share capital of the Company has been held by the public.

MATERIAL LITIGATION

As of 31 December 2018, the Company is not involved in any material litigation or arbitration. To the knowledge of the Directors, there is also no unknown or threatened material litigation or claim.

CONNECTED TRANSACTIONS

Non-exempt continuing connected transactions

During the period from the Listing Date to 31 December 2018, the Group has entered into several non-exempt continuing connected transactions pursuant to Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules since the Listing Date.

1. ***Shijiazhuang Institute of Technology Property Lease Agreement***

   As set out in note 33(c)(i) to the consolidated financial statements, on 4 May 2018, Shijiazhuang Institute of Technology, as lessee, entered into a property lease agreement ("Shijiazhuang Institute of Technology Property Lease Agreement") with Lionful Education, as lessor, pursuant to which Shijiazhuang Institute of Technology leased from Lionful Education nine dormitory buildings, one auto training center, one canteen, one infirmary and a library located at Hengshan Village, Luquan Development Area, Shijiazhuang, Hebei Province, the PRC with an aggregate construction area of approximately 71,460 sq.m. at an annual rental of RMB5.5 million. The term of lease is 10 years with an option granted to Shijiazhuang Institute of Technology to renew the agreement by giving written notice to the lessor three months prior to the expiration of the lease under normal commercial terms or better to Shijiazhuang Institute of Technology and in compliance with applicable laws and regulations as well as Listing Rules.

   Pursuant to the Shijiazhuang Institute of Technology Property Lease Agreement, (i) the lessor shall not terminate the lease agreement without written notice of 12 months and the consent with the lessee; (ii) the lessee was granted a pre-emptive right to rent the property under the same terms, which should be normal commercial terms or better to the lessee, where a third party also intends to rent the relevant properties; (iii) the lessee was granted a right of first refusal in the circumstances where the lessor was to sell the properties under the lease agreement to any third party; and (iv) if the lessee decides not to exercise its right of first refusal as mentioned in (iii), the lessor shall ensure that the maintenance of the lease of relevant properties to the lessee will be one of the condition precedents to any transfer of any relevant properties to any third party.

   Lionful Education is controlled by Mr. Li Yunong and Ms. Luo Xinlan as to 88.96% and 11.04%, respectively. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li Yunong, a Director and one of the Controlling Shareholders, and Ms. Luo Xinlan, one of the Controlling Shareholders, are connected persons of the Company. Lionful Education is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held directly by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li Yunong and Ms. Luo Xinlan and a connected person of the Company.

2. *Saintach Kindergartens Property Lease Agreements*

As set out in note 33(c)(ii) to the consolidated financial statements, Blue Crystal Kindergarten and Shijiazhuang City Chang'an District Qinghui Saintach Kindergarten* (石家莊市長安區新天際清暉幼兒園) ("Qinghui Kindergarten") leased certain buildings for use in the operation of their respective kindergartens from Hebei Ansince Property Management Co., Ltd. Shijiazhuang Branch* (河北安信聯行物業股份有限公司石家莊分公司) ("Hebei Ansince Shijiazhuang Branch"). Set out below are the principal terms and details of the two property lease agreements (collectively, the "Saintach Kindergartens Property Lease Agreements") entered into between each of Blue Crystal Kindergarten and Qinghui Kindergarten and Hebei Ansince Shijiazhuang Branch on 4 May 2018.

Lessee	Lessor	Duration of the Lease	Description and use of the property leased
1. Blue Crystal Kindergarten	Hebei Ansince Shijiazhuang Branch	For a term ending 31 December 2020, with an option to renew for an additional term upon giving written notice to the lessor three months prior to the expiration	One property used as teaching area with total gross floor area of 1,267 sq.m. located in No. 6 Xingfang Street, Shijiazhuang, Hebei Province, the PRC
2. Qinghui Kindergarten	Hebei Ansince Shijiazhuang Branch	For a term ending 31 December 2020, with an option to renew for an additional term upon giving written notice to the lessor three months prior to the expiration	One property used as teaching area with an aggregate construction area of 1,363 sq.m. located in No. 270 Guanghua Road, Chang'an District, Shijiazhuang, Hebei Province, the PRC

Hebei Ansince Shijiazhuang Branch is a branch of Hebei Ansince Property Management Co., Ltd.* (河北安信聯行物業股份有限公司), which was held as to 10% by Ms. Luo Xinlan, and 90% by Beijing Yihe Dazhong Commercial Investment Co., Ltd.* (北京宜和大眾商業投資有限公司) ("Beijing Yihe"), as of the date of this annual report. Beijing Yihe was held as to 26.09% by Mr. Li Yunong and 73.91% by Lionful Investment Holding, as of the date of this annual report. Accordingly, Hebei Ansince Shijiazhuang Branch is controlled by Mr. Li Yunong and Ms. Luo Xinlan indirectly. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li Yunong, a Director and one of the Controlling Shareholders and Ms. Luo Xinlan, one of the Controlling Shareholders, are connected persons of the Company. Hebei Ansince Shijiazhuang Branch is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held indirectly by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li Yunong and Ms. Luo Xinlan and a connected person of the Company.

3. ***Entrustment Agreement***

As set out in note 33(d)(1) to the consolidated financial statements, on 21 June 2010, Shijiazhuang Institute of Technology entered into an entrustment agreement with Lionful Education (the "Entrustment Agreement"), pursuant to which Lionful Education engaged Shijiazhuang Institute of Technology, which has sufficient campus management capability, to implement the key school operation and student administration of Sifang College West Campus and the yearly entrusted management fee is 65% of the tuition generated by Sifang College West Campus. Such rate represents the amount of revenue generated from Sifang College West Campus' tuition to which Lionful Education is entitled as agreed between Lionful Education and Shijiazhuang Tiedao University pursuant to the joint schooling arrangement, which was determined through arm's length negotiation between Lionful Education and Shijiazhuang Tiedao University, taking into account of the reputation of Shijiazhuang Tiedao University and the capacity and quality of school facilities provided by Lionful Education to Sifang College West Campus for its operations. The term of the Entrustment Agreement is ten years commencing on 1 July 2010 and ending on 30 June 2020 and may be renewable by negotiation before expiration of the term.

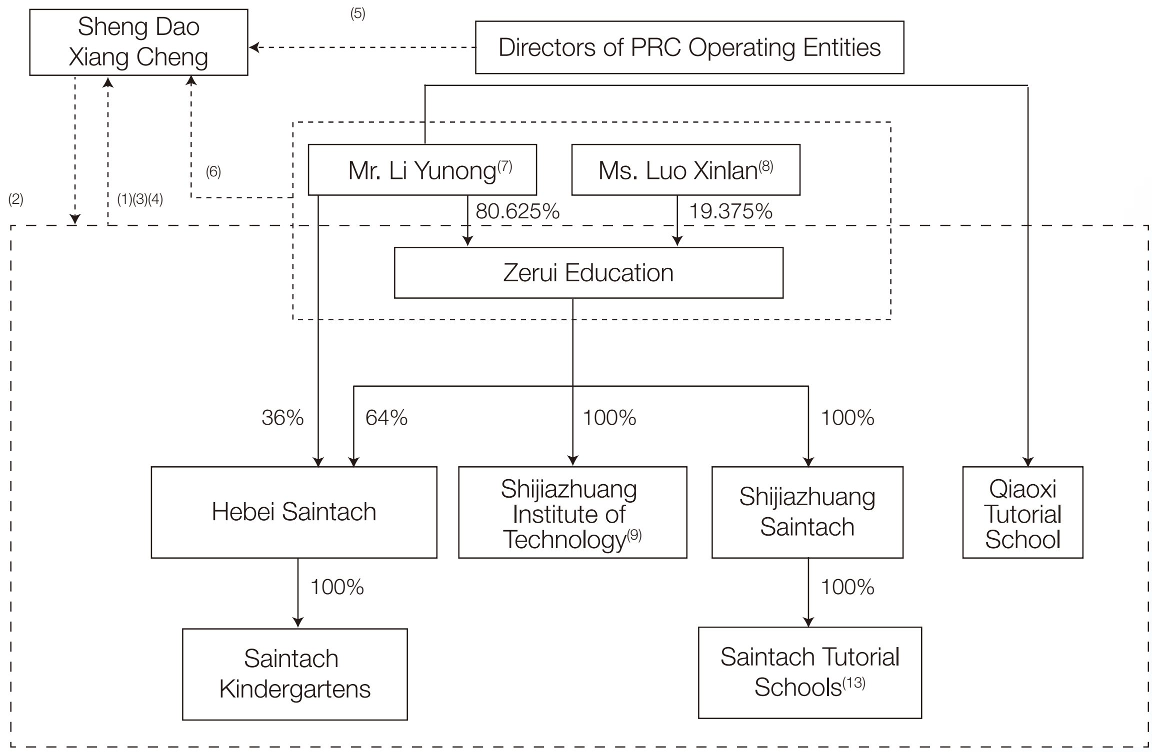
Lionful Education is controlled by Mr. Li Yunong and Ms. Luo Xinlan as to 88.96% and 11.04%, respectively. Pursuant to Rule 14A.07(1) of the Listing Rules, Mr. Li Yunong, a Director and one of the Controlling Shareholders and Ms. Luo Xinlan, one of the Controlling Shareholders, are connected persons of the Company. Lionful Education is a 30%-controlled company (as defined in Rule 14A.12(1)(c) of the Listing Rules) held directly by connected persons as defined in Rule 14A.07(1) of the Listing Rules, and hence an associate of Mr. Li Yunong and Ms. Luo Xinlan and a connected person of the Company.

4. ***Structured Contracts***

A. *Description*

The Company currently conducts its private education business through the PRC Operating Entities in the PRC where PRC laws, regulations and regulatory practice generally restricts the operation of higher, preschool, academic non-credential and secondary vocational education to Sino-foreign ownership with qualification requirements imposed on the foreign owners. The academic non-credential education provided by the Company includes individualized or small group tutoring for primary, middle and high school students, given that these tutoring services are conducted as a supplement to school education and the tutorial schools do not grant diplomas or degrees to its students. The Company does not hold any equity interest or school sponsors' interests in its PRC Operating Entities. The Structured Contracts, through which the Company obtains control over and derives economic benefits from its PRC Operating Entities, have been narrowly tailored to achieve its business purpose and minimize the potential conflict with relevant PRC laws and regulations.

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to the Group stipulated under the Structured Contracts:



Notes:

(1) Payment of service fees. Please see "B. Summary of the Material Terms of the Structured Contracts – (2) Exclusive Service Agreement" below for details.

(2) Provision of exclusive technical and management consultancy services. Please see "B. Summary of the Material Terms of the Structured Contracts – (2) Exclusive Service Agreement" below for details.

(3) Exclusive call option to acquire all or part of (i) the equity interest in Zerui Education, Shijiazhuang Saintach and Hebei Saintach; and (ii) the school sponsor's interest in Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School. Please see "B. Summary of the Material Terms of the Structured Contracts – (3) Exclusive Call Option Agreements" below for details.

(4) Entrustment of school sponsors' rights by each of Zerui Education, Mr. Li Yunong, Hebei Saintach and Shijiazhuang Saintach to Sheng Dao Xiang Cheng. Entrustment of shareholders' rights in Hebei Saintach and Shijiazhuang Saintach by Mr. Li Yunong and Zerui Education, and Zerui Education by Mr. Li Yunong and Ms. Luo Xinlan including shareholders' powers of attorney. Please see "B. Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement", "(5) Shareholders' Rights Entrustment Agreement", "(7) School Sponsors' Powers of Attorney" and "(9) Shareholders' Powers of Attorney" below for details.

(5) Entrustment of directors' rights in the PRC Operating Entities by directors of the PRC Operating Entities including directors' powers of attorney. Please see "B. Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" and "(8) Directors' Powers of Attorney" below for details.

(6) Pledge of equity interest by (i) the Registered Shareholders of their equity interest in Zerui Education; (ii) Mr. Li Yunong and Zerui Education of their equity interest in Hebei Saintach; and (iii) Mr. Li Yunong and Zerui Education of their equity interest in Shijiazhuang Saintach. Please see "B. Summary of the Material Terms of the Structured Contracts – (6) Equity Pledge Agreements" below for details.

(7) Mr. Li Yunong is the son-in-law of Ms. Luo Xinlan.

(8) Ms. Luo Xinlan is the mother-in-law of Mr. Li Yunong and has been acting in concert with Mr. Li Yunong in connection with their interests in the Group since April 2005.

(9) Infirmary of Shijiazhuang Institute of Technology was wholly-owned by Shijiazhuang Institute of Technology.

(10) "⟶" denotes direct legal and beneficial ownership in the equity interest or school sponsor's interest.

(11) "- - -➤" denotes Structured Contracts.

(12) "- - - -" denotes the PRC Operating Entities of the Company.

(13) For the illustration purpose of this diagram, Saintach Tutorial Schools include Chang'an Tutorial School, Donggang Tutorial School, Zhicheng Tutorial School, High-tech Zone Tutorial School and Huixuan Tutorial School, and do not include Qiaoxi Tutorial School.

B. Summary of the Material Terms of the Structured Contracts

(1) Business Cooperation Agreement

Pursuant to the Business Cooperation Agreement, Sheng Dao Xiang Cheng shall provide technical service and management consultancy service necessary for the private education business pursuant to the Structured Contracts, and in return, the PRC Operating Entities of the Company shall make payments pursuant to the Structured Contracts. To ensure the due performance of the Structured Contracts, each of the PRC Operating Entities agreed to comply with, and procure any of its subsidiaries to comply with, and Mr. Li Yunong and Ms. Luo Xinlan agreed to procure each of the PRC Operating Entities to comply with, the obligations as prescribed under the Business Cooperation Agreement.

In order to prevent the leakage of assets and values of the consolidated affiliated entities, Mr. Li Yunong, Ms. Luo Xinlan and each of the PRC Operating Entities have undertaken that, without prior written consent of Sheng Dao Xiang Cheng or its designated party, he/she/it shall not conduct or cause to conduct any activity or transaction which may have actual adverse impact on the assets, business, staff, obligations, rights or operations of the PRC Operating Entities.

Furthermore, each of Mr. Li Yunong and Ms. Luo Xinlan undertakes to Sheng Dao Xiang Cheng that, without prior written consent of Sheng Dao Xiang Cheng, he or she shall not (i) directly or indirectly engage, participate in or conduct any business or activities which compete or may potentially compete with the business or activities any of the PRC Operating Entities (the "Competing Business"), (ii) acquire or hold any interest in the Competing Business, (iii) use information obtained from any of the PRC Operating Entities for the Competing Business, and (iv) obtain any benefit from any Competing Business.

(2) Exclusive Service Agreement

Pursuant to the Exclusive Service Agreement, Sheng Dao Xiang Cheng, as the exclusive service provider of the PRC Operating Entities, agreed to provide exclusive technical services and exclusive management consultancy services to the PRC Operating Entities related to their business.

In consideration of the technical and management consultancy services provided by Sheng Dao Xiang Cheng, each of the PRC Operating Entities agreed to pay Sheng Dao Xiang Cheng a service fee equal to all of their respective amount of net profit after deducting all costs, expenses, taxes, losses from the previous year, social donated capital (if any), state funded capital (if any) and the legally compulsory development fund of the respective school (if required by the law), or a lesser amount determined by Sheng Dao Xiang Cheng at its absolute discretion.

Unless otherwise prescribed under the PRC laws and regulations, Sheng Dao Xiang Cheng shall have exclusive proprietary rights to any technology and intellectual property developed and materials prepared in the course of the provision of research and development, technical support and services by Sheng Dao Xiang Cheng to the PRC Operating Entities, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Service Agreement and/or any other agreements entered into between Sheng Dao Xiang Cheng and other parties.

(3) Exclusive Call Option Agreements

Under the Exclusive Call Option Agreements, (i) Mr. Li Yunong, Ms. Luo Xinlan and Zerui Education have irrevocably granted Sheng Dao Xiang Cheng or its designated person the exclusive right to purchase all or part of the equity interest in Zerui Education, Shijiazhuang Saintach and Hebei Saintach; and (ii) Mr. Li Yunong and Hebei Saintach have irrevocably granted Sheng Dao Xiang Cheng or its designated person the exclusive right to purchase all or part of the school sponsor's interest in Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School ("Call Options"). The purchase price payable by Sheng Dao Xiang Cheng in respect of the transfer of such equity interest or school sponsor's interest upon exercise of the Call Options shall be RMB1.00 or the lowest price permitted under the PRC laws and regulations. Sheng Dao Xiang Cheng or its designated purchaser shall have the right to purchase such proportion of the equity interest or school sponsor's interest of the PRC Operating Entities as it decides at any time.

In the event that PRC laws and regulations allow Sheng Dao Xiang Cheng or the Company to directly hold all or part of the equity interest or school sponsor's interest in the PRC Operating Entities and operate private education business in the PRC, Sheng Dao Xiang Cheng shall issue the notice of exercise of the Call Options as soon as practicable, and the percentage of equity interest or school sponsor's interest purchased upon exercise of the Call Options shall not be lower than the maximum percentage then allowed to be held by Sheng Dao Xiang Cheng or the Company under PRC laws and regulations.

(4) School Sponsors' and Directors' Rights Entrustment Agreement

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreement, each of Zerui Education, Mr. Li Yunong, Hebei Saintach and Shijiazhuang Saintach has irrevocably authorized and entrusted Sheng Dao Xiang Cheng to exercise all its/his rights as school sponsor of each of the schools to the extent permitted by the PRC laws, and each of directors or council members of the schools has irrevocably authorized and entrusted Sheng Dao Xiang Cheng or its designated persons to exercise all his/her rights as directors or council members and to the extent permitted by the PRC laws.

In addition, each of Mr. Li Yunong, Zerui Education, Hebei Saintach and Shijiazhuang Saintach and the appointed directors or council members of the schools have irrevocably agreed that, where permissible by PRC laws, (i) Sheng Dao Xiang Cheng may delegate its rights under the School Sponsors' and Directors' Rights Entrustment Agreement to the directors of Sheng Dao Xiang Cheng or its designated persons, without prior notice to or approval by the schools or their appointed directors or council members; and (ii) Sheng Dao Xiang Cheng is entitle to revoke its delegation to the aforesaid directors of Sheng Dao Xiang Cheng or other persons.

(5) Shareholders' Rights Entrustment Agreement
Pursuant to the Shareholders' Rights Entrustment Agreement, each of Mr. Li Yunong, Ms. Luo Xinlan and Zerui Education has irrevocably authorized and entrusted Sheng Dao Xiang Cheng to exercise all his/her/its rights as shareholders of each of Zerui Education, Hebei Saintach and Shijiazhuang Saintach to the extent permitted by the PRC laws and the articles of association of each of Zerui Education, Hebei Saintach and Shijiazhuang Saintach.

In addition, Mr. Li Yunong, Ms. Luo Xinlan and Zerui Education, without violation of PRC laws, have irrevocably agreed that (i) Sheng Dao Xiang Cheng may delegate its rights under the Shareholders' Rights Entrustment Agreement to the directors of Sheng Dao Xiang Cheng or its designated persons, without prior notice to or approval by Mr. Li Yunong, Ms. Luo Xinlan or Zerui Education; and (ii) Sheng Dao Xiang Cheng is entitle to revoke its delegation to the aforesaid directors of Sheng Dao Xiang Cheng or other persons.

(6) Equity Pledge Agreements
Pursuant to the Equity Pledge Agreements, (i) Mr. Li Yunong and Ms. Luo Xinlan unconditionally and irrevocably pledged and granted security interests over all of his/her equity interest in Zerui Education, (ii) Mr. Li Yunong and Zerui Education unconditionally and irrevocably pledged and granted security interests over all of his/its equity interest in Hebei Saintach, and (iii) Zerui Education unconditionally and irrevocably pledged and granted security interests over all of its equity interest in Shijiazhuang Saintach, together with all related rights thereto to Sheng Dao Xiang Cheng as security for performance of the Structured Contracts. In addition, Mr. Li Yunong, Ms. Luo Xinlan and Zerui Education shall not, without the prior written consent of Sheng Dao Xiang Cheng, create further pledge or encumbrance over the pledged equity interests.

(7) School Sponsors' Powers of Attorney
Pursuant to the School Sponsors' Powers of Attorney executed by each of Mr. Li Yunong, Zerui Education, Hebei Saintach and Shijiazhuang Saintach in favor of Sheng Dao Xiang Cheng, each of Mr. Li Yunong, Zerui Education, Hebei Saintach and Shijiazhuang Saintach authorized and appointed Sheng Dao Xiang Cheng as his/its agent to act on his/its behalf to exercise or delegate the exercise of all his/its rights as school sponsor of our schools. For details of the rights granted, please see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" in the Prospectus.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of Mr. Li Yunong, Zerui Education, Hebei Saintach and Shijiazhuang Saintach irrevocably agree that the authorization appointment in the School Sponsors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(8) Directors' Powers of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the directors or council members of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens in favor of Sheng Dao Xiang Cheng, each of the appointees authorized and appointed Sheng Dao Xiang Cheng as his/her agent to act on his/her behalf to exercise or delegate the exercise of all his/her rights as directors or council members of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens. For details of the rights granted, please see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (4) School Sponsors' and Directors' Rights Entrustment Agreement" in the Prospectus.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of the appointees irrevocably agree that the authorization appointment in the Directors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The Directors' Powers of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(9) Shareholders' Power of Attorney

Pursuant to the Shareholders' Power of Attorney executed by each of Mr. Li Yunong, Ms. Luo Xinlan and Zerui Education in favor of Sheng Dao Xiang Cheng, each of the appointees authorized and appointed Sheng Dao Xiang Cheng as his/her/its agent to act on his/her/its behalf to exercise or delegate the exercise of all the rights as shareholders of Zerui Education, Hebei Saintach and Shijiazhuang Saintach. For details of the rights granted, please see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts – (5) Shareholders' Rights Entrustment Agreement" in the Prospectus.

Sheng Dao Xiang Cheng shall have the right to further delegate the rights so granted to its directors or other designated persons. Each of the appointees irrevocably agree that the authorization appointment in the Shareholders' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sheng Dao Xiang Cheng's subdivision, merger, winding up, consolidation, liquidation or other similar events. The Shareholders' Power of Attorney shall constitute a part and incorporate terms of the Shareholders' Rights Entrustment Agreement.

(10) Spouse Undertakings

Pursuant to the Spouse Undertakings, the respective spouse of each of Mr. Li Yunong and Ms. Luo Xinlan, the Registered Shareholders, has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by the relevant Registered Shareholder, whether as a contractual party or not, and in particular, the arrangement as set out in the Structured Contracts in relation to the equity interest and/or school sponsor's interest in the PRC Operating Entities, including but not limited to any restrictions imposed, pledge or transfer or the disposal in any other forms;

(b) the spouse has not, is not and shall not in the future participate in the operation, management, liquidation, dissolution or other matters in relation to the PRC Operating Entities; and

(c) the spouse authorizes the respective Registered Shareholder and/or his/her authorized person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in order to safeguard the interest of Sheng Dao Xiang Cheng under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures.

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

C. *Business Activities of PRC Operating Entities and Their Significance and Financial Contributions to the Group*

The main business activities of the PRC Operating Entities are to provide a wide range of students from preschool students in kindergartens of the Group, to primary school, middle school and high school students in tutorial centers of the Group, to junior college and continuing education students in the college of the Group.

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

	Significance and financial contribution to the Group		
	Revenue for the year ended 31 December 2018	Net profit for the year ended 31 December 2018	Total assets as at 31 December 2018
PRC Operating Entities	100%	112%	69%

D. *Revenue and Assets Involved in Structured Contracts*

The table below sets out (i) revenue; and (ii) total assets involved in the PRC Operating Entities as at 31 December 2018, which would be consolidated into the Group's financial statements pursuant to the Structured Contracts:

	Revenue RMB'000	Total assets RMB'000
PRC Operating Entities	201,995	521,121

E. *Regulatory Framework*

(1) Preschool and Higher Education, Academic Non-credential and Secondary Vocational Education

Pursuant to the Catalogue for the Guidance of Foreign Investment Industries (2017 version) 《外商投資產業指導目錄2017版》 (the "Foreign Investment Catalogue"), the provision of preschool and higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalogue explicitly restricts the participation of foreign-invested entities in preschool and higher education to Sino-foreign cooperation, which means that foreign investors may only operate educational institutions offering preschool and higher education through joint ventures with PRC incorporated entities that are in compliance with the Sino-foreign Regulations. 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 chief executive officer of the schools shall be a PRC national, and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "Foreign Control Restriction").

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Regulation on Sino-foreign Cooperation in Operating Schools of the PRC《中華人民共和國中外合作辦學條例》(the "Sino-Foreign Regulations(s)"), if the Company was to apply for any of the schools for PRC students that is operated by the Group to be reorganized as a Sino-foreign joint venture private school ("Sino-Foreign Joint Venture Private School"), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and high quality of education (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund's Entry into the Education Sector and Promoting Healthy Development of Private Education《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》promulgated by the Ministry of Education of the PRC (the "MOE") on 18 June 2012 ("Implementation Opinions"), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "Foreign Ownership Restriction"). As advised by the PRC Legal Advisor, the establishment of a Sino-Foreign Joint Venture Private School offering preschool education is subject to the approval of education authorities at the provincial level, and the establishment of a Sino-Foreign Joint Venture Private School offering junior college education is subject to the approval of education authorities and government at the provincial level and the establishment of a Sino-Foreign Joint Venture Private School offering undergraduate education or above is subject to the approval of education authorities at the national level.

As advised by the PRC Legal Advisor, although pursuant to the Sino-Foreign Regulations, the establishment and operation of Sino-foreign joint venture schools offering academic non-credential and/or secondary vocational education is subject to the approval of education authorities at the provincial level, the Foreign Investment Catalogue does not explicitly restrict the participation of foreign-invested entities in schools offering academic non-credential and/or secondary vocational education to Sino-foreign cooperation. Therefore, there is certain uncertainty in practice as to (i) whether schools established and operated by foreign investors offering academic non-credential and/or secondary vocational education must comply with the Sino-Foreign Regulations and its implementation measures and whether such schools must operate through Sino-Foreign Joint Venture Private Schools; and (ii) what specific criteria must be met by a foreign investor (such as the number of years of experience and the form and extent of ownership of the relevant foreign educational institution in the foreign jurisdiction) in order to demonstrate to the relevant education authorities that it meets the Qualification Requirement.

Accordingly, on 30 June 2017, with the assistance of the PRC Legal Advisor, the Company consulted the Education Department of Hebei Province (河北省教育廳), being the competent authority in Hebei Province as advised by the PRC Legal Advisor to obtain such confirmation in respect of the matters relating to the Sino-Foreign Joint Venture Private Schools of the Company.

The Company was advised by an officer of the International Cooperation and Communication Office* (國際合作和交流處) at the Education Department of Hebei Province (河北省教育廳), among other things, that:

(i) foreign investors operating schools in the PRC (which in the case of the Company, includes schools offering academic non-credential and secondary vocational education, preschool and higher education) as school sponsors must comply with the Sino-Foreign Regulations and its implementation measures and must operate such schools through joint ventures with PRC incorporated entities;

(ii) the Foreign Ownership Restriction and the Qualification Requirement applied to Sino-Foreign Joint Venture Private Schools in Hebei Province;

(iii) a foreign investor in a Sino-Foreign Joint Venture Private School should be an officially recognized educational institution which was authorized to issue diplomas, which had advanced education capacity and special school-running characteristics and which generally possessed certain advantages over PRC-invested educational institutions;

(iv) as a matter of practice, no Sino-Foreign Joint Venture Private Schools had been approved in Hebei Province after the Sino-Foreign Regulations came into effect on 1 September 2003 and no change to such policy was expected in the coming year. Further, no applications for Sino-Foreign Joint Venture Private Schools had been received by the Education Department of Hebei Province (河北省教育廳) recently;

(v) no implementation measures or specific guidance pursuant to the Sino-Foreign Regulations had been promulgated in Hebei Province; and

(vi) the execution of the Structured Contracts, including the payment of service fees thereunder, would not require approval from or filing at the relevant education authorities. The existing Structured Contracts were not required to be terminated and would not affect the holding or renewal of the permissions and licenses that had already been obtained.

Moreover, during the interview, both the Company and the officer with whom the Company spoke referred to the tutoring services of the Company as "non-credential education," illustrating the appropriateness of this classification.

The PRC Legal Advisor is of the view that the Education Department of Hebei Province and the officer interviewed from the International Cooperation and Communication Office (國際合作和交流處) are competent authorities to provide the relevant confirmations based on the following:

– Pursuant to the Notice of the Office of People's Government of Hebei Province on the General Catalogue for Administrative Licensing Matter in Hebei Province (2016) (河北省人民政府辦公廳關於公佈河北省行政許可事項通用目錄(2016年版)的通知), the competent department for the examination and approval for the establishment, change of registration or termination for the Sino-foreign cooperative educational institution providing higher education, mid-level credential education, after-school education or preschool education is the Education Department of Hebei Province;

– Pursuant to the Matter List for Administrative Licensing of the Education Department of Hebei Province (河北省教育廳行政許可事項清單), the International Cooperation and Communication Office at the Education Department of Hebei Province shall be the responsible institution for the examination and approval for the establishment, change of registration or termination for Sino-foreign cooperative educational institution providing higher education, mid-level credential education, after-school education or preschool education; and

– The aforesaid officer is a head of International Cooperation and Communication Office, who has good and authoritative understanding of the PRC laws and regulations regarding Sino-foreign cooperative education and its actual implementation in the Hebei Province.

As at the date of this annual report, as advised by the PRC Legal Advisor, the Company does not meet the Qualification Requirement since the Company has no experience in operating a school outside of the PRC. In addition, based on the above advice and confirmation, it is not practicable for the Company to seek to reorganize any of the PRC Operating Entities as a Sino-Foreign Joint Venture Private School.

Notwithstanding the above, the Company is committed to working towards meeting the Qualification Requirement. The Company has adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. The Company has undertaken to make periodic inquiries to relevant education authorities following the Listing to keep abreast of any regulatory developments, including any change in policy for approving Sino-Foreign Joint Venture Private Schools in Hebei Province, and continually assess whether the Company meets the then prevailing Qualification Requirement, with a view to unwinding the Structured Contracts wholly or partially as and when it becomes practicable and permissible under the then prevailing PRC laws and regulations. Please see "Structured Contracts – Circumstances in Which We Will Unwind the Structured Contracts" and "Structured Contracts – Plan to Comply with the Qualification Requirement" in the Prospectus for further details.

As a result of the above regulatory restrictions, the Company does not hold any equity interest or school sponsor's interest in, and rather control by way of Structured Contracts over and receive economic benefits from, the PRC Operating Entities given the PRC laws, regulations and regulatory practice currently restrict operation of academic non-credential and secondary vocational education, preschool and higher education to Sino-foreign ownership, in addition to imposing Qualification Requirements on the foreign owners.

As of the date of this annual report, the Company has not encountered any interference or encumbrance from any governing bodies in its plan to adopt the Structured Contracts and the consolidated financial results of the PRC Operating Entities, which engage in education service, are consolidated to those of the Group. The PRC Legal Advisor has opined that each of the PRC Operating Entities has been legally established and the Structured Contracts in relation to the operation of academic non-credential and secondary vocational education, preschool and higher education are valid, legal and binding and do not contravene the relevant laws and regulations of the PRC save as disclosed in "Structured Contracts – Dispute Resolutions" in the Prospectus. According to the PRC Legal Advisor, under PRC laws and regulations, the failure to meet the Qualification Requirement and the adoption of the Structured Contracts to operate schools of the Company to provide academic non-credential and secondary vocational education, preschool and higher education do not render the academic non-credential and secondary vocational education, preschool and higher education business of the Company illegal in the PRC. As disclosed above, the Company has obtained confirmation from the Education Department of Hebei Province (河北省教育廳) that the execution of the Structured Contracts would not require approval from or filing at the education authorities and the existing Structured Contracts were not required to be terminated and would not affect the holding or renewal of the permissions and licenses that had already been obtained.

(2) Qualification Requirement

Pursuant to the Foreign Investment Catalog and the Sino-Foreign Regulation and as confirmed by the Education Department of Hebei Province, the foreign investor in Sino-foreign joint venture schools offering preschool, tertiary education, academic non-credential and secondary vocational education must be a foreign educational institution with relevant qualification and experience (the "Qualification Requirement") and hold less than 50% of the capital in a Sino-foreign educational institute and the domestic party must play a dominant role. Based on our consultation with the Education Department of Hebei Province, the foreign investor should be an officially recognized educational institution which is entitled to issue diploma and generally has certain advantages over the PRC-invested educational institutions. The Company has taken particular plans and commenced to implement specific measures, while the Company believes that such plans and measures had considerable significance in striving to demonstrate their compliance with the Qualification Requirement.

As advised by the PRC Legal Advisor, none of the implementation regulations related to the Qualification Requirement was updated since the Listing Date up to 31 December 2018.

Please also refer to the section headed "Structured Contracts" in the Prospectus for details of the efforts and actions made by the Group in accordance with the Qualification Requirement.

(3) Foreign Investment Law
On 15 March 2019, the Foreign Investment Law was formally adopted by the 13th National People's Congress and will take force from 1 January 2020. The Foreign Investment Law does not explicitly stipulate contractual arrangement constitutes a form of foreign investment. As advised by the PRC Legal Advisor, as contractual arrangement is not classified as an investment under the Foreign Investment Law, and if contractual arrangement is not included as a form of foreign investment into future laws, administrative regulations or provisions of the State Council, the Structured Contracts of the Company as a whole and the various agreements underlying the Structured Contracts will not be affected. Despite the above, the Foreign Investment Law stipulates that foreign investments include "investments made by foreign investors in the manners prescribed by laws, administrative regulations or otherwise by the State Council". Therefore, future laws, administrative regulations or provisions of the State Council may regard contractual arrangement as a form of foreign investment, and it is uncertain whether the Company's Structured Contracts will be recognized as foreign investments, whether they will be considered as violating foreign investment access requirements and how the above Structured Contracts will be handled. As such, there is no assurance that the Company's Structured Contracts and the business of the PRC's Operating Entities will not be materially and adversely affected in the future.

Save as disclosed, the Company and the Board, after consulting the PRC Legal Advisor, are satisfied that there are no other up-to-date information on the Foreign Investment Law.

F. *Risks Associated with the Arrangements and the Actions Taken to Mitigate the Risks*
Foreign investment in the education industry in China is extensively regulated and subject to numerous restrictions. Under the Foreign Investment Catalog, preschool education and higher education are restricted industries for foreign investors, and foreign investors are only allowed to invest in preschool education and higher education in cooperative ways and the domestic party shall play a dominant role in the cooperation. Furthermore, under the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education《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》, which was issued by the MOE on 18 June 2012, the foreign portion of the total investment in a Sino-foreign joint venture private school should be below 50%. According to relevant regulations and as confirmed by the Commission of Education in Hebei Province, the foreign investors invested in preschools, higher education, academic non-credential and secondary vocational education must be foreign educational institutions with relevant qualification and experience.

Accordingly, foreign investment in preschools, higher education, academic non-credential and secondary vocational education is not prohibited. However, Sheng Dao Xiang Cheng, a subsidiary of the Company, is ineligible to independently or jointly operate preschools, higher educational institutions, academic non-credential and secondary vocational education. Accordingly, the Company has been and are expected to continue to be dependent on our Structured Contracts to operate its education business.

Please refer to the section headed "Risk Factors – Risks Relating to Our Structured Contracts" in the Prospectus.

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

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

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

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

(d) the Company and the Directors have undertaken to provide periodic updates in the annual and interim reports regarding the Qualification Requirement and the status of compliance with the Foreign Investment Law, including the latest relevant regulatory development, as well as the plan and progress towards demonstrating compliance with the Qualification Requirement;

(e) the Company shall disclose, as soon as possible (i) any updates of changes to the Foreign Investment Law that will materially and adversely affect the Company as and when they occur; and (ii) a clear description and analysis of the Foreign Investment Law as implemented, specific measures taken by the Company to fully comply with the Foreign Investment Law supported by a PRC legal opinion and any material impact of the Foreign Investment Law on the operations and financial position of the Company; and

(f) the Company shall engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Structured Contracts and the legal compliance of Sheng Dao Xiang Cheng and the PRC Operating Entities to deal with specific issues or matters arising from the Structured Contracts.

In addition, notwithstanding that one of the Directors, Mr. Li Yunong, is also one of the Registered Shareholders, the Company believes that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently under the following measures:

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

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

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

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

G. Material Changes

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

H. Unwinding of the Structured Contracts

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

5. Confirmation of Independent Non-executive Directors

The independent non-executive Directors had reviewed the continuing connected transactions above and confirmed that such transactions had:

(1) been entered into in the ordinary and usual course of business of the Group;

(2) been conducted on normal commercial terms; and

(3) been carried out according to the relevant agreements governing such transactions on fair and reasonable terms and in the interest of the Shareholders as a whole.

In particular, independent non-executive Directors have reviewed the Structured Contracts and confirmed that:

(1) the transactions carried out during the year ended 31 December 2018 have been entered into in accordance with the relevant provisions of the Structured Contracts, and have been operated so that the profit generated by the PRC Operating Entities has been substantially retained by the Group;

(2) no dividends or other distributions have been made by the PRC Operating Entities to the holders of its school sponsor's interest which are not otherwise subsequently assigned or transferred to the Group; and

(3) the Structured Contracts and if any, any new contracts entered into, renewed or reproduced between the Group and the PRC Operating Entities during the year ended 31 December 2018 are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole.

6. Confirmation of the Company's Auditors

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

The Company's auditors have performed certain pre-determined review procedures in respect of the continuing connected transactions of the Group set out above for the year ended 31 December 2018, and reported to the Board that:

(1) nothing has come to their attention that causes them to believe that such continuing connected transactions have not been approved by the Board;

(2) nothing has come to their attention that causes them to believe that such continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Company;

(3) nothing has come to their attention that causes them to believe that such continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions;

(4) in respect of the transactions under the Structured Contracts, no dividends or other distributions have been made by the PRC Operating Entities to the Registered Shareholders which are not otherwise subsequently assigned or transferred to the Group; and

(5) in respect of such continuing connected transactions other than the transactions under the Structured Contracts, nothing has come to their attention that causes them to believe that the transaction amounts exceeded the annual caps.

Save as disclosed above, the other transactions set out in note 33 to the consolidated financial statements either do not constitute connected transactions or continuing connected transactions or are exempt from reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2018 are set out in note 33 to the consolidated financial statements.

MODEL CODE

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by directors. Specific enquiries have been made to all the Directors, and each Director has confirmed that he/she has complied with the code provisions set out in the Model Code all the time during the period from the Listing Date to 31 December 2018.

By order of the Board
Li Yunong
Chairman

Hong Kong, 22 March 2019

VII. Corporate Governance Report

The Board is pleased to present the corporate governance report set out in the annual report of the Company for the period from the Listing Date to 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

During the period from the Listing Date up to 31 December 2018, the Company has complied with all applicable code provisions under the CG Code and adopted most of the recommended best practices set out therein. The Company will continue to review and monitor its corporate governance practices to ensure the compliance with the CG Code.

THE BOARD

Responsibilities

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

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its Shareholders at all times.

The Company has purchased appropriate liability insurances for the legal proceedings that the Directors may be involved in, and will review the insurance coverage on a yearly basis.

BOARD COMPOSITION

During the period from the Listing Date to the date of this annual report, the Board comprised five executive Directors and three independent non-executive Diretors detailed as follows:

Executive Direcotrs:
Mr. Li Yunong
Mr. Liu Zhanjie
Ms. Liu Hongwei
Mr. Ren Caiyin
Ms. Yang Li

Independent non-executive Directors:
Mr. Guo Litian
Mr. Ma Guoqing①
Mr. Yao Zhijun
Mr. Wan Joseph Jason②

Notes:

① Resigned on 6 March 2019
② Appointed on 6 March 2019

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

During the period from the Listing Date to 31 December 2018, the Board has complied with requirements under Rule 3.10(1) and Rule 3.10(2) of the Listing Rules that at least three independent non-executive directors shall be appointed with at least one independent non-executive director possessing appropriate professional qualifications or accounting or relevant financial management expertise. The Company has also complied with the requirments under Rule 3.10A of the Listing Rules that the number of independent non-executive directors as appointed shall be equivalent to one-third of the number of board members.

Each of the independent non-executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers each of them to be independent.

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

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

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

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

All Directors are encouraged by the Company to participate in continuous professional development to develop and refresh their knowledge and skills. From time to time, the joint company secretaries of the Company update and provide the Directors with written training materials in relation to their roles, functions and duties.

A summary of trainings received by the Directors for the year ended 31 December 2018 according to the information provided by the Directors is as follows:

Name of Director	Nature of continuous professional development program
Executive Diretors:	
Mr. Li Yunong	A/B/C/D[1]
Mr. Liu Zhanjie	A/B/C/D
Ms. Liu Hongwei	A/B/C/D
Mr. Ren Caiyin	A/B/C/D
Ms. Yang Li	A/B/C/D
Independent non-executive Directors:	
Mr. Guo Litian	A/B/C/D
Mr. Ma Guoqing	A/B/C/D
Mr. Yao Zhijun	A/B/C/D

Note[1]: A: attending seminars and/or conferences and/or forums and/or briefings; B: making speeches at seminars and/or conferences and/or forum; C: participating in training provided by law firms and that relating to the business of the issuer; D: reading materials on various topics, including corporate governance, directors' duties, Listing Rules and the amendments to other relevant laws.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In accordance with the code provision A.2.1 of the CG Code, the roles of chairman of the Board and chief executive officer should be separate and should not be performed by the same individual.

Mr. Li Yunong acts as the chairman of the Board. Mr. Liu Zhanjie was originally the chief executive officer of the Company, and was re-designated as the vice chairman of the Board on 7 January 2019. On the same day, Ms. Liu Hongwei was re-designated from executive president to the chief executive officer of the Company. The chairman of the Board is responsible for the overall formulation of business strategy, and guidance of development of the Group, and the chief executive officer is responsible for the overall operations and development of the Group, thus separating these two different positions by function.

APPOINTMENT OF DIRECTORS

Each of the executive Direcotrs has entered into a service contract with the Company for a term of three years commencing on the Listing Date, which may be renewable automatically for three years and subject to termination in accordance with the provisions of the service contract.

Mr. Guo Litian and Mr. Yao Zhijun have each entered into a letter of appointment with the Company for a term of one year commencing on the Listing Date, which may be subject to termination in accordance with the provisions of the letter of appointment. Mr. Wan Joseph Jason has entered into a letter of appointment with the Company for a fixed term of one year, commencing from 6 March 2019, which may be subject to termination in accordance with the provisions of the letter of appointment.

None of the Directors has entered into any service contract or letter of appointment with the Group which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

BOARD MEETINGS

The Company has adopted the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of no less than fourteen days are given for regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

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

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

The Shares were listed on the Main Board of the Stock Exchange on 29 May 2018. During the period from the Listing Date to 31 December 2018, the Board held 5 Board meetings, including 2 regular Board meetings, and did not hold any general meeting. Attendance of the Directors at regular Board meetings is set out in the table below:

Director	Number of Board meetings attended/number of Board meetings
Executive Directors:	
Mr. Li Yunong	2/2
Mr. Liu Zhanjie	2/2
Ms. Liu Hongwei	2/2
Mr. Ren Caiyin	2/2
Ms. Yang Li	2/2
Independent non-executive Directors:	
Mr. Guo Litian	2/2
Mr. Ma Guoqing	2/2
Mr. Yao Zhijun	2/2

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Specific enquiries has been made to all the Directors and each of the Directors has confirmed that he/she complied with the code provisions of the Model Code throughout the period from the Listing Date to 31 December 2018.

During the period from the Listing Date to 31 December 2018, the Company also adopted its own code of conduct regarding employees' securities transactions on terms no less exacting than the standard set out in the Model Code for the compliance by its relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of their dealings in the Company's securities.

DELEGATIOIN BY THE BOARD

The Board reserves for its decision on 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 will have recourse to seek independent professional advice in performing their duties at the Company's expense. Directors are encouraged to access and to consult with the Company's senior management independently.

The daily management, administration and operation of the Group are delegated to the senior management of the Company. 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 senior management of the Company.

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of Directors and their corporate governance functions include:

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

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

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

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

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

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

BOARD COMMITTEES

Audit Committee

During the period from the Listing Date to 31 December 2018, the Audit Committee comprised three members, namely Mr. Yao Zhijun (chairman), Mr. Guo Litian and Mr. Ma Guoqing, all of whom are independent non-executive Directors.

On 6 March 2019, Mr. Ma Guoqing resigned as, among other things, an independent non-executive Director and a member of the Audit Committee and Mr. Wan Joseph Jason was appointed as the same. As at the date of this annual report, the Audit Committee comprises three independent non-executive Directors, namely Mr. Yao Zhijun (chairman), Mr. Guo Litian and Mr. Wan Joseph Jason.

The main duties and responsibilities of the Audit Committee are as follows:

(1) to assure that adequate internal controls are in place and followed;

(2) to assure that appropriate accounting principles and reporting practices are followed;

(3) to provide liaison among the Shareholders, management, the authorized independent auditors (the "External Auditors"), internal auditors or any person responsible for internal audit function (the "IA People");

(4) to consider the qualifications and independence of the External Auditors;

(5) to satisfy itself as to compliance with any applicable legal requirements;

(6) to review audit and control related corporate representations made to External Auditors, IA People and to the Shareholders;

(7) to ensure itself that good accounting and audit policy, internal control, ethics of conduct and proper business ethics have been followed;

(8) to contribute towards a climate of discipline, risk management awareness and control within the Group; and

(9) to implement any other duties as delegated by the Board.

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

During the period from the Listing Date to 31 December 2018, the Audit Committee held one meeting to review the interim results of the Company and its subsidiaries for the six months ended 30 June 2018.

Attendance of the members of the Audit Committee at the meeting is set out in the table below:

Name of Director	Number of attendance/number of meeting
Mr. Yao Zhijun	1/1
Mr. Guo Litian	1/1
Mr. Ma Guoqing	1/1

Nomination Committee

During the period from the Listing Date to 31 December 2018, the Nomination Committee comprised three members, namely one executive Director, i.e. Mr. Li Yunong (chairman) and two independent non-executive Directors, i.e. Mr. Ma Guoqing and Mr. Yao Zhijun.

On 6 March 2019, Mr. Ma Guoqing resigned as, among other things, an independent non-executive Director and a member of the Nomination Committee and Mr. Wan Joseph Jason was appointed as the same. Consequently, as at the date of this annual report, the Nomination Committee comprises three members, namely one executive Director, i.e. Mr. Li Yunong (chairman), and two independent non-executive Directors, i.e. Mr. Yao Zhijun and Mr. Wan Joseph Jason.

The main duties and responsibilities of the Nomination Committee are as follows:

(1) to review the structure, size and diversity (including without limitation, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(2) to identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable candidates, the Nomination Committee shall consider candidates on merit and against the objective criteria, with due regard for the benefits of diversity on the Board;

(3) to assess the independence of independent non-executive Directors; and

(4) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate.

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

During the period from the Listing Date to 31 December 2018, the Nomination Committee did not hold any meeting.

Board Diversity Policy and Nomination Policy

Purposes

(1) to guide the Board in relation to appointment/re-appointment/removal of Directors;

(2) to devise criteria for performance evaluation of the independent non-executive Directors and the Board as a whole; and

(3) to devise a policy on the size and composition of the Board taking into account the available and needed diversity and balance in terms of experience, knowledge, skills and judgment of the Directors.

Board Diversity

The Nomination Committee has formulated the “Board Diversity Policy” in respect of the nomination and appointment of new Directors, which states that, the criteria for selecting Director candidates shall include various diversity factors such as gender, age, cultural and educational background, race, professional experience, skills, knowledge and years of service, and the final candidates will be determined based on their comprehensive capabilities and the contributions they may make to the Board. The Company aims to maintain the balanced and diversified opinions of the Board members in respect of the business development of the Company.

Nomination and Re-election of Board Members

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, and for making recommendations to the Board on the appointment, re-election and succession planning of Directors. After the Nomination Committee makes its recommendations to the Board, the Board will have final authority on determining the selection of the candidates for nomination to the Board.

The Nomination Committee will assess the candidate or incumbent on criteria such as integrity, experience, skill and ability to commit time and effort to carry out the duties and responsibilities. The recommendations of the Nomination Committee will then be put to the Board for decision. The Nomination Committee shall obtain all applicable declarations and undertaking as provided under the laws of the Cayman Islands and the Listing Rules. In case of independent non-executive Directors, the Nomination Committee shall ensure that the independent non-executive Directors meet the criteria of independence as laid down in the Listing Rules.

Once the Nomination Committee determines that an additional or replacement Director is required, the Nomination Committee may take such measures that it considers appropriate in connection with its evaluation of a candidate, including candidate interviews, inquiry of the person or persons making the recommendation or nomination, engagement of an outside search firm to gather additional information, or reliance on the knowledge of the members of the Nomination Committee, the Board or management.

According to the Articles of Association, all the Directors shall retire by rotation once at least every three years. Any new Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting after his/her appointment and be subject to re-election by Shareholders at such meeting, and any Director appointed by the Board as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Remuneration Committee

During the period from the Listing Date to 31 December 2018, the Remuneration Committee comprised three members, namely two independent non-executive Directors, i.e. Mr. Ma Guoqing (chairman) and Mr. Guo Litian, and one executive Director, i.e. Mr. Liu Zhanjie.

On 6 March 2019, Mr. Ma Guoqing resigned as, among other things, an independent non-executive Director and chairman of the Remuneration Committee and Mr. Wan Joseph Jason was appointed as the same. Consequently, as at the date of this annual report, the Remuneration Committee comprises three members, namely two independent non-executive Directors, i.e. Mr. Wan Joseph Jason (chairman) and Mr. Guo Litian, and one executive Director, i.e. Mr. Liu Zhanjie.

The main duties and responsibilities of the Remuneration Committee are as follows:

(1) to consult the chairman and/or chief executive about their remuneration proposals for other executive Directors;

(2) to make recommendations to the Board on the Company's policy and structure for all Directors' and the Company's senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(3) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(4) to determine, with delegated responsibility, or to make recommendations to the Board, the remuneration packages of individual executive directors and senior management. The remuneration packages should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(5) to make recommendations to the Board on the remuneration of non-executive Directors;

(6) to consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;

(7) to review and approve compensation payable to executive Directors and the Company's senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

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

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

(10) in respect of any service contract to be entered into between any members of the Group and its Director or proposed Director that requires Shareholders's approval, to review and provide recommendation to the Shareholders (other than Shareholders(s) who is/are Director(s) with a material interest in the relevant service agreements and their respective associates) as to whether the terms of the service contracts are fair and reasonable and whether such service contracts are in the interests of the Company and the Shareholders as a whole, and to advise Shareholders on how to vote.

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

During the period from the Listing Date to 31 December 2018, the Remuneration Committee held one meeting to review the grant of 5,190,000 Options in total by the Company under the Share Option Scheme adopted on 4 May 2018 to subscribe for a total of 5,190,000 ordinary Shares in the share capital of the Company.

Attendance of the members of the Remuneration Committee at the meeting is set out in the table below:

Name of Director	Number of attendance/number of meeting
Mr. Ma Guoqing	1/1
Mr. Guo Litian	1/1
Mr. Liu Zhanjie	1/1

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the Directors and senior management of the Company for the year ended 31 December 2018 falls under the following bands:

Band of remuneration (RMB'000)	Number of individuals
Over 200	2
101-200	6
50-100	1
Below 50	3

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for preparing the audited consolidated financial statements as set out on page 115 of this annual report.

The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's audited consolidated financial statements, which are put to the Board for approval. The Company provides all members of the Board with updates on the Company's performance, positions and prospects.

The statement by the auditors of the Company regarding their reporting responsibilities on the audited consolidated financial statements is set out in the Independent Auditor's Report on pages 115 to 116 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for supervising the design, implementation and monitoring of risk management system by the management to ensure the establishment and maintenance of an effective risk management system of the Company and its subsidiaries. The Board keeps supervising risk management and internal control systems of the Company and its subsidiaries and reviews the effectiveness of the risk management and internal control systems of the Group at least once annually. Regular reviews also cover all significant controls, including the controls over finance, operation and compliance with laws and regulations, as well as the risk management function of the Company. These 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 shall bear full responsibility for maintaining sound and effective risk management and internal control measures to safeguard the assets of the Company and interests of Shareholders. The Directors confirmed that the Company carried out regular inspections on the daily operation, business exploration, investments in acquitions and mergers, internal rules and systems, business procedures, asset management, bidding and tendering processes, contract management, operation procedures, practices and systems through risk control and compliance department to ensure that none of the operating activities of the Company are carried out in violation of the legal requirements at the places where it operates, and safeguard assets from inappropriate use, maintain proper accounts and ensure the compliance with and implementation of relevant regulations.

The internal management mechanism and review procedures currently implemented and put in place by the Company in respect of risk management and compliance management mainly include:

(1) to prepare a risk list based on the contents and types of risks that are common and likely to be encountered in the Company's operations;

(2) to further improve and optimize the Company's contract management measures and management system;

(3) to regularly review and summarize the effectiveness of the Company's risk management, internal control and compliance management systems and measures through pre-established internal assessment mechanisms to achieve effective operations and improve risk management;

(4) to prepare plans for major risks and common risks and provide training and guidance to the operations department on the relevant plans; and

(5) to effectively and regularly communicate with the Board and each senior management personnel on risk management, internal control and compliance management to ensure the implementation and practice of the Company's internal risk control and internal audit mechanisms.

The Group established a compliance system of internal monitor and control information reporting which consists of internal major information contacts, which mainly includes regular material information reporting and temporary material information reporting, for the purpose of ensuring the effective identification of, and the high efficiency and order of the transmission and usage of, the Group's internal information. The Group complies with requirements of the SFO and the Listing Rules. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is also committed to ensuring that the information contained in announcements are not false or misleading as to a material fact, or false or misleading through the omission of a material fact with a view to presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts. The Company formulated and published systems including the Management System of Information Disclosure as the internal monitoring, controlling and safeguarding measures for the processing and releasing procedures of inside information and applied them within the Group.

For the year ended 31 December 2018, the Board has reviewed the effectiveness of the Company's risk management and internal control systems through the Audit Committee, including resource adequacy, as well as the qualifications, experience of and the training plans and budgets for the Group's accounting and financial reporting staff. The Company and the Directors all consider that the Group's current risk management and internal control systems are operating effectively and sufficiently.

DIVIDEND POLICY

The Board considers that stable dividend payment to Shareholders is the primary objective of the Company. It is the policy of the Board, in considering the payment of dividends, to allow Shareholders to share the Company's profits whilst retaining adequate capital for the Group's future growth.

Under the applicable laws of the Cayman Islands and the Articles of Association, all of the Shareholders have equal rights to dividends and distributions. The Board determines the dividend which requires the approval of Shareholders. In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares also requires the approval of Shareholders.

The Board takes into account the following factors when considering the declaration and payment of dividends:

(1) liquidity position of the Company;

(2) actual and expected financial results of the Company;

(3) gearing ratio of the Group, Shareholders' interests and any restriction that may be imposed by any creditor;

(4) general business conditions and strategies;

(5) capital requirements;

(6) contractual restrictions on the payment of dividends by the Company to the Shareholders or by the subsidiaries to the Company, if any;

(7) taxation considerations;

(8) general economic conditions and other internal or external factors that may affect the business or financial performance and conditions of the Company;

(9) receipt of sufficient fund from the Company's subsidiaries, including the PRC Operating Entities;

(10) statutory and regulatory restrictions; and

(11) any other factors the Board may deem relevant.

The Company will not declare any dividend under the following circumstances:

(1) during the growth phase of the Company or during significant expansion or undertaking of any acquisitions or joint ventures requiring higher allocation of capital;

(2) whenever the Company proposes or plans to utilize surplus cash to repurchase the Shares;

(3) when profits are inadequate or the Company incurs losses, or there are reasonable grounds for believing that the Company is or would be, after a dividend payment, unable to pay its liabilities or discharge its obligations as and when they become due; and

(4) according to other requirements set forth by law.

The Board will continually review the dividend policy from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the Company appointed Ernst & Young as the External Auditors. The approximate remuneration of the auditor in respect of the audit and non-audit services provided to the Company for the year ended 31 December 2018 is as follows:

Type of services	Amount (RMB'000)
Audit services	1,400
Non-audit services	50
Total	1,450

JOINT COMPANY SECRETARIES

Ms. Liu Qingli ("Ms. Liu") was appointed as the joint company secretary of the Company from 18 October 2017, and resigned on 28 January 2019. On the same day, the Board appointed Mr. Zheng Tieqiu ("Mr. Zheng") as one of the joint company secretaries of the Company. The joint company secretaries of the Company are responsible for advising the Board on corporate governance matters and ensuring that the Board policy and procedures, and the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable laws of Hong Kong, the Company also engages Ms. Wong Sau Ping ("Ms. Wong"), associate director of TMF Hong Kong Limited (a global corporate service provider), as the other joint company secretary of the Company to assist Mr. Zheng to discharge his duties as joint company secretary of the Company. Mr. Zheng is the primary contact person of Ms. Wong at the Company.

For the year ended 31 December 2018, Ms. Liu and Ms. Wong have undertaken no less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a two-way relationship and communication between the Company and its Shareholders and maintains a website at www.21centuryedu.com and enquiry channels for investors (telephone: +86 10 65951509; email: ir@21stedu.com), where the up-to-date information on the Company's business operations and developments, corporate governance practices and other information are available for public access. Shareholders may make enquires about the Company to the Board through the channels above.

SHAREHOLDERS' RIGHTS

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

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

CONVENING AN EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

According to the Articles of Association, Shareholders may put forward proposals for consideration at general meetings of the Company. Any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up share capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or any one of the joint company secretaries 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; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene such general meeting shall be reimbursed to the requisitionist(s) by the Company.

For recommending a Director candidate, please refer to the relevant procedures on the Company's website.

AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

For the year ended 31 December 2018, the Articles of Association have been amended and restated with effect from the Listing Date.

VIII. Environmental, Social and Governance Report

ABOUT THIS REPORT

Brief Introduction

This is the first Environmental, Social and Governance Report ("ESG Report") published by the Company, with a view to responding to all the issues about which the stakeholders of 21st Century Education are concerned regarding environmental and social development in a transparent and public manner, and demonstrating to the public our performance in sustainable development in 2018.

For the performance of 21st Century Education in corporate governance, please refer to the section headed "Corporate Governance Report".

Reporting Scope

Unless otherwise stated, the ESG Report covers the educational institutions of 21st Century Education in the PRC, including the related businesses of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens. The time period covered by the ESG Report is from 1 January 2018 to 31 December 2018, same as that of the 2018 annual report of the Company.

Reference and Basis

The ESG Report is prepared with reference to the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules issued by the Stock Exchange and in compliance with all the "comply or explain" provisions as well as the principles of materiality, quantitative, balance and consistency.

Cautionary Statement

The ESG Report has been published in both Traditional Chinese and English. In the event of any inconsistency, the Traditional Chinese version shall prevail. Soft copy of the ESG Report is available for reading and downloading on the official websites of 21st Century Education and the Stock Exchange.

Contact Information

21st Century Education attaches great importance to the views, opinions and suggestions of the readers. Should you have any enquiry or comment on the content of the ESG Report, please feel free to contact us through the following:

Telephone: 010-65951509

Email: info@21stedu.com

Company address: 15th Floor, South Building, China Overseas Plaza, Chaoyang District, Beijing, the PRC

INNOVATIVE EDUCATIONAL INSTITUTE

21st Century Education is a large established private education service provider based in Hebei Province, the PRC, and adhering to the core philosophy of "assisting you in your whole life", it has been striving unremittingly to provide clients with customized services and solutions based on individual demand. With our efforts and development over the past 15 years, our education business has covered four segments, namely preschool education, K12 after-school tutoring, tertiary education and continued education, and online education.

Outstanding Corporate Culture

Vision: Creating Equality by Education		
Mission: Promoting education development through content and technology	For staff	Providing an employment platform where the staff can achieve sustainable growth, work with dignity and have a proud career
	For clients	Providing customized services and solutions based on individual demand to make education more friendly; and making education more convenient through the innovation driven by "content + technology"
	For industry	Pushing forward resource sharing and building an open platform; promoting the localization of education and the values with a global perspective
	For society	Providing effective means contributive to the whole life, promoting the balanced social development by education, and practicing love by education
Values	Co-existence	Clients are the only reason we exist
	Sharing	Making achievements with openness, and realizing freedom with openness
	All-win	We are successful if we can make clients satisfied, make the industry stylized and make the society accept
Service philosophy	Striving for perfection with unremitting enthusiasm	
View on talents	Passion, sincerity and willingness to win	
Pursuit of professional manager	Obsession, joy and gratefulness	

Promoting Communication

21st Century Education values the communication with all the stakeholders, and actively maintains the communication with them through various channels and in various ways, providing us with multi-faceted references and bases for our steady development.

Communication with regulatory authorities:

21st Century Education actively cooperates with the supervision and management of regulatory authorities and actively carries out daily communication with regulatory authorities. During the Reporting Period, we invited the leaders from various regulatory authorities including the University Work Committee of Hebei Province, the Urbanization Office of Shijiazhuang City, and the United Front Work Department of Shijiazhuang Municipal Committee to visit 21st Century Education.

Communication with parents:

During the Reporting Period, 21st Century Education earnestly listened to the parents' opinions and suggestions on teaching activities through parent conferences and surveys on parent satisfaction and by inviting parents to participate in the education activities for the students, so as to promote the continuous improvement of teaching activities.

Communication with industry association:

In order to keep abreast of the development of the industry and contribute to the private education business in the PRC, 21st Century Education actively communicated with the China Association for Non-Government Education and successfully became a director of the association in 2018.

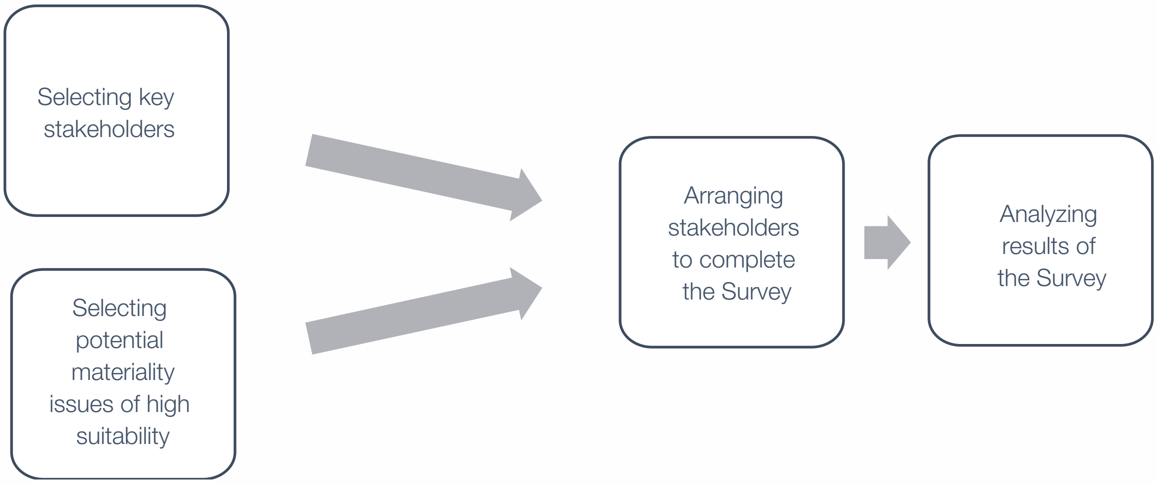
Communication with investors:
21st Century Education takes investors' opinions as important reference factors for business development. We listen to investors' opinions on the Company's future development strategy through various methods such as one-on-one meetings and conference calls, and incorporate investors' opinions into the considerations and plans for future development.

Communication with students:
Students are of the greatest concern to the day-to-day operations of 21st Century Education. In order to keep abreast of students' needs and help students grow up healthily in study and life, we carry out a variety of activities to maintain the interaction with our students.

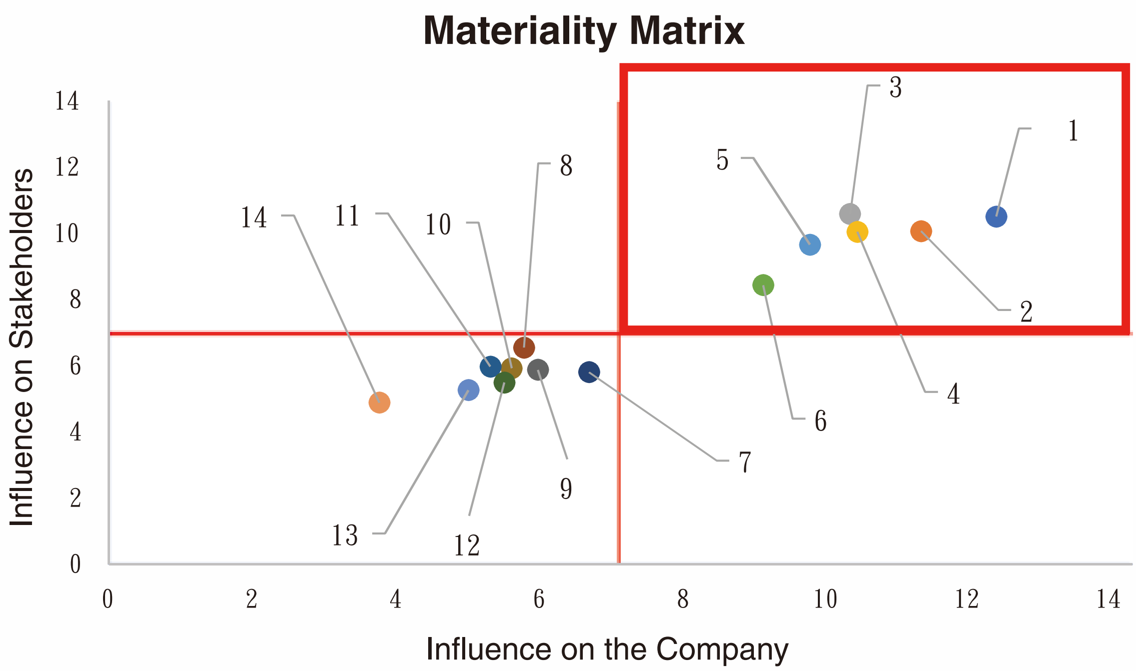
Communication with staff:
Staff is the cornerstone for the development of 21st Century Education. Opinions of the staff can reflect the most directly the greatest noteworthy aspects in the development of our education business. Therefore, we actively communicate with different staff including administrative staff and faculties to consult their opinions.

In order to understand the major concerns of stakeholders to make better responses in the ESG Report, 21st Century Education conducted a materiality survey (the "Survey"), during which it invited various stakeholders including the management and general staff of the Company in particular, and received 584 completed surveys. Going forward, we will further optimize the Surveys designed for stakeholders and try our best to invite more different stakeholders to participate in the Surveys.

The whole Survey was carried out in four major steps:



Based on the Survey, 21st Century Education developed the following materiality matrix, and designed the overall structure of the ESG Report based on the materiality of each issue in the matrix.



Order of issue	Content of issue	Order of issue	Content of issue
1	Health and safety of students	8	Resource utilization
2	Standardized management	9	Advertising and marketing
3	Employment management	10	Public welfare for communities
4	Staff training and development	11	Environmental protection initiatives and measures
5	Health and safety of staff	12	Anti-corruption
6	Food safety in canteens	13	Prevention of child labor and forced labor
7	Supply chain management	14	Waste discharge and management

According to the results of the Survey, for the Company and the stakeholders, the six issues including the health and safety of students, standardized management, employment management, staff training and development, health and safety of staff and food safety in canteens are of high materiality, and thus constitute the focuses of the ESG Report.

BUILDING DIVERSIFIED SCHOOLS

Against the backdrop of globalization, 21st Century Education keeps cultivating students' knowledge, quality, ethics and skills in an all-round way, and exerts unremitting efforts to help the new generation to become knowledgeable talents that are ethical, responsible, self-reliant and physically and mentally healthy.

Guaranteeing Safety and Health

Health and safety in schools have always been the top priorities of 21st Century Education in the course of development, and also the focuses of national and industry associations in promoting the development of private education. According to the directions and requirements specified in the Education Law of the People's Republic of China, the Measures for the Safety Management of Primary and Secondary Schools and Kindergartens, the Law of the People's Republic of China on Tort Liabilities, and the Law of the People's Republic of China on the Protection of Minors, etc. in such aspects as the safety of teaching facilities in educational institutions, the protection of students' safety and health and the enhancement of fire-fighting work, and in consideration of the safety threats to which the children of different age groups are exposed, we have prepared a series of safety management systems to manage the health and safety of the students of different age groups, including the Safety Management Standardization Manual for Saintach Kindergartens (the "Safety Manual"), Compilation of Safety Management Systems of Shijiazhuang Saintach Education and Technology Co., Ltd (the "Safety System Compilation"), Regulations of Shijiazhuang Institute of Technology on the Education and Management of Student Safety (the "Safety Regulations"). During the Reporting Period, 21st Century Education strictly abided by international laws and industry standards, and defended these bottom lines with zero health and safety accident on students and faculties.

Safety Manual	It specifies the focuses for safety management including safety and security, children shuttle safety, safety of collective outdoor activities, asset security, fire and food safety and safety of outdoor event venues, and establishes corresponding management systems and management processes.
Safety Regulations	It mainly aims at publicizing and implementing the national guidelines, policies, laws and regulations on safety management, implementing safety education and management for students, and properly handling all types of accidents, and puts forward the safety management measures in such aspects as safety education, safety management and accident handling.
Safety System Compilation	It establishes an administrative safety management system for schools comprising the safety work management system, fire safety system, safety governance system for surrounding environment, safety management system for organizing outdoor activities for teachers and students, safety protection work system for sudden disasters, and safety management system for public places on campus as the core systems, a daily management system for students in schools mainly consisting of daily safety system for students in schools, personal safety management system for students and safety management system for student activities.

In addition to the attention to the safety of students, the public is laying increasing emphasis on students' mental health. 21st Century Education has developed various measures and programs to protect students' mental health according to their needs, and is committed to promoting harmonious development of every student receiving education at our institutions both physically and mentally.

Saintach Kindergartens	Through observation and record, teachers analyze the behaviors of the children in the two aspects of teaching and life, and fill out children development reports at the end of each semester to comprehensively evaluate each child in terms of their performance in five major areas: health, art, science, language and social behavior.
Saintach Tutorial Schools	The Implementation Plan for the Education on Mental Health has been formulated, which aims to cultivate the comprehensive psychological diathesis of the students about how to behave, learn, create value and live a life in two aspects, namely development-oriented mental health education and remedy-oriented mental health education.
Shijiazhuang Institute of Technology	The institute gives its students a psychological evaluation each year to protect their mental health. Tutors are also required to organize more than two class meetings with the theme of mental health per semester.

According to the laws and regulations relating to fire safety such as the Fire Protection Law of the People's Republic of China, the Regulations on the Fire Safety Management of Authorities, Organizations, Enterprises and Institutions, the Regulations on the Fire Safety Management of Colleges and Universities, and the Fire Protection Regulations of Hebei Province, we have, under the guideline of "precaution comes first with active prevention", specified corresponding fire management methods in the Safety Manual and Safety System Compilation, and formulated new special management regulations such as the Regulations of Shijiazhuang Institute of Technology on Fire Safety Management (the "Fire Regulations") and the Management System of Shijiazhuang Institute of Technology for Micro Fire Stations to protect the lives of students and faculties on campus.

Safety Manual	A fire safety committee is established. The committee is responsible for formulating fire safety emergency plans, monitoring and regularly replacing fire-fighting equipment, and regularly organizing fire safety training and fire-fighting escape drills for all staff. The Safety Manual has provided various emergency measures including fire emergency plans, timely warning, rapid fire extinguishment and timely evacuation.
Safety System Compilation	A fire safety supervision department is set up, which is responsible for formulating the relevant system, monitoring and promoting its implementation and clarifying the content of the fire safety publicity, education and training work, and regularly conducting fire safety trainings for employees. Fire prevention, fire prevention supervision, hidden danger rectification and fire documentation mechanisms are established to reduce the probability and minimize the impact of fire disaster.
Fire Regulations	The Fire Regulations put in place a fire safety responsibility system, clarifies the management measures of the fire protection organization, the fire safety regulations for campus area, the fire safety management regulations for key units, and the management methods for facility and equipment maintenance. The Fire Regulations also explain the daily fire protection work and the management of fire documentation.

Fire drill conducted by the Shijiazhuang Institute of Technology

In order to standardize and strengthen the Shijiazhuang Institute of Technology's fire safety management, ensure calm and smooth command and response in the event of a fire, and safely organize the evacuation of all teachers and students to protect their safety, the Shijiazhuang Institute of Technology conducted a fire drill on the early morning of 25 December 2018. The fire drill was successfully completed with the cooperation and efforts of everyone.

Superior Teaching Management

21st Century Education strictly abides by various laws and regulations including the Law of the People's Republic of China on the Promotion of Private Education, the Education Law of the People's Republic of China and the Regulations of Hebei Province on Private Education, and has established a highly scalable educational business model under the support of standardized management, so as to ensure the legal compliance and quality of our educational and operating activities. We have formulated the Control System and Evaluation System for Teaching Quality (the "Standardization System"), the Manual on the Standardization of Teaching Process (the "Standardization Process"), and the Measures for the Update and Maintenance of Corporate Standardization Management System (the "Standardization Update") to strengthen the effective supervision, monitoring, evaluation and guidance of teaching quality, and introduced advanced information technology means, such as the establishment of Gaojiaoyun, to integrate, amongst others, the teaching management system, financial management, student management, enrollment system, with a view to continuing to enhance the management standard, and conduct teaching quality management and assessment in a scientific and standardized manner.

Standardization System	• Teaching quality standard system • Teaching quality monitoring organization system • Supervision operating system • Teaching quality monitoring information system • Teaching quality evaluation system
Standardization Process	• Formulation of teaching standards • Classroom management system • Testing of teachers' professional skills • Attendance system • Writing standards of teaching plans
Standardization Update	• Review system • Setting up discussion groups for the plans • Implementing new standardization system • Establishing inspection mechanism

The Shijiazhuang Institute of Technology successfully passed the ISO9001:2015 certification

As an application-oriented education institution, Shijiazhuang Institute of Technology has been unremittingly strengthening and promoting the standardization of college management. 2018 is the "Quality Year" of Shijiazhuang Institute of Technology during which Shijiazhuang Institute of Technology introduced the latest version of the international standard ISO9001:2015, built up an education and teaching quality management system featured unified management and joint implementation, and successfully passed the ISO9001:2015 quality management system certification on 9 August 2018.

BUILDING A TEAM OF ELITES

21st Century Education is committed to building a team of high quality, self-disciplined, loyal, and united talents. We adhere to the views on talents of "passion, sincerity and willingness to win", and strive to create a team of elites by providing the staff with a variety of career paths, building talent teams covering all the staff and developing a perfect hierarchical training system.

Pursuant to the requirements of the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Implementing Regulations for the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》), the Administrative Measures on Labor Contracts of Hebei Province (《河北省勞動合同管理辦法》), the Provisions on the Prohibition of Child Labor (《禁止使用童工規定》) and other national and local laws and regulations, we resolutely safeguard the legitimate rights and interests of staff, treat all staff equally, and severely resist any discrimination such as gender discrimination and cultural discrimination, as well as the use of child labor and forced labor or other illegal activities, so as to create a comfortable and diversified working environment for all staff, and allow everyone to express themselves and break through themselves in 21st Century Education. During the Reporting Period, 21st Century Education did not record any incident of any non-compliance with any law or regulation in terms of staff management.

Selecting Outstanding Talents

In order to serve the needs of the Company for development and the needs of the staff for career development, improve work efficiency and standardize work process, and ensure the balance of supply and demand of human resources, 21st Century Education has formulated the Administrative Measures of 21st Century Education Group for Staff Changes (《21世紀教育集團員工異動管理辦法》), which sets forth normative requirements for the construction of talent team in various aspects such as recruitment, promotion, movement and leaving-office. In addition, we have also avoided the occurrence of child labor and forced labor incident by collecting the information of new staff and implementing labor contract management in a unified manner.

Recruitment	Internal recruitment: each unit needs to publish the needs for human resources on the office automation system, and the staff can submit applications on their own and will be finally screened by the respective unit. External recruitment: the human resources department conducts open recruitment through media, online recruitment, headhunters, campus recruitment, etc., and eventually determines the persons for recruitment through multi-level interviews and re-examinations.
Promotion	Job promotion: the staff eligible for job promotion can fill out the Job Competition Report (《競聘訴職報告》) and submit it to the human resources department. An appraisal team consisting of the members from the target department and the human resources department will organize interviews and select those suitable for job promotion. Level promotion: the staff makes summaries on their work, the work plans and goals for the coming year and reports to the human resources department, while the human resources department evaluates the staff's performance.
Movement	Movement includes assignment, transfer, secondment and furlough, etc..
Leaving-office	Leaving-office can be divided into four categories, namely self-resignation, dismissal, retirement and other reasons, and defines the seven conditions for leaving office, including non-conformity with employment conditions during the probationary period, unsuitable relations between the staff and the employer during the probation period and criminal responsibility incurred according to law.

During the Reporting Period, 21st Century Education had 1,818 employees in total, the details of which are as follows:

Number of staff by gender[1]

Category	Number	Proportion
Male staff	436	24%
Female staff	1,382	76%

Number of staff by age group

Category	Number	Proportion
30 and below	744	41%
30 to 50	661	36%
50 and above	413	23%

Number of staff by type of employment

Category	Number	Proportion
High level	22	1%
Middle level	565	31%
Basic level	1,231	68%

Number of staff by region

Hebei	Beijing	Henan	Anhui	Gansu	Hubei	Liaoning	Inner Mongolia	Shandong
1,760	2	6	2	2	2	6	2	8

Shaanxi	Zhejiang	Guangdong	Guangxi	Jiangsu	Shanxi	Yunnan	Hong Kong
4	2	1	3	4	11	2	1

1 Due to the employment characteristics of the education industry, the female staff of 21st Century Education accounts for a higher proportion than the male staff does.

Protecting Staff's Rights and Interests

21st Century Education firmly protects the legitimate rights and interests of the staff and protects staff's basic rights and interests in terms of salary, working hours, holidays and benefits. In this regard, we have formulated the Remuneration Management Measures of 21st Century Education Group (《21世紀教育集團薪酬管理辦法》) to regulate the management of staff remuneration. According to these measures, the remuneration of our staff mainly comprises post-based salary, seniority-based salary and bonus, and the components of the remuneration shall be diversified, which means that each unit is allowed to include transportation subsidies and allowance for phone call fees, etc. in the salary. We adjust remunerations once a year with the adjustments proposed by the human resources and administration departments based on external research and the Company's revenue, and shall be subject to the approval of the Board.

The Measures of 21st Century Education Group for Work Attendance and Absence Management (《21世紀教育集團考勤及假別管理辦法》) sets forth clear provisions regarding the working hours and absence of the staff:

- The normal working hours are five days per week. One shift is arranged at the headquarters of the Company with the length of eight hours, and two shifts are arranged in schools with the length of eight hours per shift;

- Staff is entitled to national statutory holidays, sick leaves, casual leaves, marriage leaves, bereavement leaves, maternity leaves, nursing leaves and annual leaves;

- Staff shall declare in advance in the office automation system for leave, leaving office for business and business trip and obtain the approval before taking the leave; and

- We restrict overtime work, and make work arrangements for the sole purpose of completing the relevant tasks. In particular, the staff who needs to work overtime on a rest day or holiday for work reasons shall fill in an application through the office automation system, and can only work overtime after obtaining the approval.

In addition, in order to enhance corporate cohesion and improve the life quality of our staff, we have established the Welfare Management Measures of 21st Century Education Group (《21世紀教育集團福利管理辦法》) on the basis of respecting the differences in the industries where each unit operates and their management levels to regulate the staff welfare management of 21st Century Education. In addition to the basic staff benefits at the national level, we further provide transportation subsidies for senior management personnel, further education for senior management personnel, solatium for senior management personnel and their immediate family members who pass away, condolences, benefits for Chinese New Year, tours, team building activities, old staff club and other benefits in accordance with these measures.

Trip to Taierzhuang

In July 2018, the Saintach Kindergarten organized trips to Weishan Lake Wetland Park and Taierzhuang Ancient Town to enable the teachers to relax and mitigate pressure.

Saintach Badminton Competition

We believe that sports and competitions can enhance the enthusiasm of the staff and enable them to exercise. On 13 November 2018, the 3rd Saintach Badminton Competition was held with the theme of "Bursting the Passion for Life and Releasing the Vitality of Youthfulness". A total of 13 teams participated in the competition.

Providing a Platform for Development

21st Century Education attaches great importance to the cultivation and development of talents, and through strengthening teamwork, puts into practice the transformation idea of "three-in-one" at all levels of the Company to improve the comprehensive quality of the human resources in the Group. During the Reporting Period, we designed the training system for 2018 in accordance with the "3411 model" and put forward the following plans:

- 3 represents the trainings for management trainees, development strength improvement and career development of senior management;
- 4 represents backup echelon club, sales elite club, HR growth club, happy growth club;
- 1 represents the Devil Training Camp; and
- 1 represents the vertical systematic professional training.

In addition, we further refined the training activities with comprehensive consideration in various aspects including training targets, training objectives, training cycles, training methods, training courses and assessment.

During the Reporting Period, a total of 1,558 staff participated in the training activities held by 21st Century Education.

First session of Devil Training Camp in 2018

From 22 to 28 May 2018, 21st Century Education held the first training session named "Devil Training Camp" in 2018. This training aims to maximize the potential of each participant and strengthen the team's fighting capacity, execution, and cohesiveness, and help participants understand the power of solidarity and the importance of mutual assistance.

First session of professional knowledge training for the Class of General Manager Candidates

From 23 to 24 August 2018, in line with the Group's transformation and upgrading and to provide continuous talents for each first-tier company, 21st Century Education provides the first session of professional knowledge training course for cultivating general manager candidates. Through the implementation of planned, effective and targeted professional courses, the comprehensive ability and quality of the talent pool for general manager are improved in a systematic manner.

The human resources department compiled the "Annual Review Report on Training Work in 2018" based on the processes and results of various training activities in 2018 to summarize the experience of the training work during the Reporting Period. As shown in the results, all training activities were carried out in accordance with the training plans during the Reporting Period, and the training results are satisfactory, which greatly promoted the talent reserve and development of 21st Century Education.

Based on our experience and research, 21st Century Education designs the framework of the annual training system every year. By improving the overall quality of staff and managers, improving business philosophy, optimizing knowledge structure and strengthening the professionalism of technology, we effectively put into practice the new ideas and concepts developed after listing at each level, and designed four training segments including basic energy system construction, advancement system construction, improvement and ongoing pioneering system construction and senior management peak system construction with a view to strengthening teamwork, thus getting prepared and planed in advance for the training activities in the coming year.

PROMOTING STABLE OPERATION

21st Century Education focuses on identifying and managing operational risks to meet stakeholders' expectations and future growth needs, while ensuring that operations and management are in compliance with regulatory requirements.

Regulating Procurement Activities

Effective management of suppliers is critical to 21st Century Education. In this regard, we have compiled the Procurement Management Measures of 21st Century Education Group (《21世紀教育集團採購管理辦法》) to regulate the procurement activities across the Group. According to such management measures, 21st Century Education's procurement is mainly divided into two types, namely bidding procurement and non-bidding procurement. In the bidding process, various bidding organs such as the bidding leading group and the bidding working group are set up to manage the filing of bidding documents, inspect the bidding documents and supervise the performance of the bidding projects, and the Group will assign supervisors to supervise the bidding work.

For the management of suppliers, we follow the principles of "management by classification, standard setting, openness and transparency, supervision and control" to evaluate suppliers by way of classification and ratings. The classification and rating work is handled by the bidding and procurement management department at the headquarters of 21st Century Education or the department designated by the president with the cooperation of the department generating or utilizing such business and the financial department. We also pay attention to suppliers' qualifications, credit status, product quality, service quality and other information, refer to their performance in the environmental and social aspects, and take timely risk prevention measures in the event of any problem identified.

During procurement activities, we are most concerned about the selection of food suppliers for our canteens, because this is related to the health and safety of our teachers and students. Therefore, on the basis of supplier management, we have put in place stricter and more detailed regulations on the selection and management of food suppliers to ensure the food safety of everyone on campus. Pursuant to the Food Safety Law (《食品安全法》), the Regulations of the Ministry of Health and Ministry of Education on the Sanitation of the Student Canteens and Collective Student Meals (《衛生部、教育部學生食堂與學生集體用餐衛生管理規定》) and other relevant laws and regulations, we have formulated a series of standardized operation manuals including the Standardized Canteen Management Manual of Shijiazhuang Institute of Technology (《石家莊理工職業學院食堂標準化管理手冊》) and the Standardized Operation Manual for the Canteen Merchants in Shijiazhuang Institute of Technology (《石家莊理工職業學院食堂商戶標準化操作手冊》) (the "Manual") and the Healthcare and Diet Standardization Manual of Saintach Kindergartens (《新天際幼兒園保健與膳食標準化手冊》), and established a food safety self-disciplined body to strictly control food safety through the inspection of industrial suppliers' qualifications and food certification and other manners.

In respect of the procurement of ingredients, we will assign special personnel to check the certificates or test list of the ingredients, and assign special personnel to take charge of the acceptance work to ensure that the quality of the ingredients meets the requirements for procurement. As for canteen management, we manage the canteens and their suppliers in each campus in various aspects, including canteen cleaning staff management, disinfection, sample management, daily inspection by canteen managers, external materials and additive management, and standardize the requirements for the completion of the Canteen Standardization Checklist (《食堂標準化檢查表》) to record the results of canteen monitoring in detail. In addition, the suppliers for the canteens also need to comply with the following requirements, regulate their own behaviors, and ensure the safety of the food served in the canteens in accordance with the Manual:

- Managing operation staff in accordance with health, personal hygiene, operational and other requirements;
- Implementing meticulous management on the sanitation, equipment maintenance, fuel use of the operation room;
- Strictly controlling the procurement, use and storage of food additives;
- The procurement, use, management and storage of the ingredients must be under normal supervision to ensure the freshness of the ingredients;
- Tableware must be sterilized, and samples for the food provided must be stored and recorded; and
- All workers in the canteens are required to serve as per standardized service requirements.

During the Reporting Period, we maintained good cooperation with 76 suppliers in total, all of which are based in Hebei Province.

Operating in Compliance with Laws and Regulations

21st Century Education strictly manages advertising, student recruitment brochures and other promotional activities. Pursuant to the requirements of the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》), the Law of the People's Republic of China on the Promotion of Private Education (《中華人民共和國民辦教育促進法》) and other laws and regulations, 21st Century Education promises not to use false publicity information in advertisements, and all the relevant student recruitment brochures and advertisements have been submitted to the examination and approval authority for filing and have complied with the requirements of laws and regulations.

Pursuant to the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》), the Trademark Law (《商標法》), the Copyright Law (《著作權法》) and other laws and regulations related to intellectual property protection, 21st Century Education has formulated various internal policies including the Trademark Management Measures of 21st Century Education Group(《21世紀教育集團商標管理辦法》) and the Management Regulations of Saintach Education for Intellectual Property Rights (《新天際教育知識產權管理規定》) to protect the trademarks and copyrights that belong to the Company, or the intellectual property rights enjoyed by the staff from infringement. If any investigation shows that there is plagiarism, theft, falsification, illegal possession, counterfeiting or other forms of infringement of intellectual property rights, the Company has the right to order it to be rectified and impose disciplinary action or assist the human resources department to deal with it according to law; and if it constitutes a crime, criminal liability may be sought for any crime committed thereby according to law.

Pursuant to the requirements of the Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》) and the Law of the People's Republic of China on Tort Liabilities (《中華人民共和國侵權責任法》) and other relevant laws and regulations, we have provided for the requirements on the protection of customer information in the Service Process of Gold Medal Tutors (《金牌導師服務流程》) and Information Management Measures for Education Customers of Saintach Child Education (《新天際幼兒教育客戶信息管理辦法》) and limited the ability of staff to gain access to customer information by restricting the authority of customer information statistical sheet management and planning the management requirements for customer information statistical sheet, further preventing customer information leakage, ensuring the completeness and safety of the information, and achieving scientific and efficient storage and utilization of customer information.

Resolutely Resisting Corruption

Various laws and regulations such as the Criminal Law of the People's Republic of China (《中華人民共和國刑法》) and the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》) clearly define and strictly control the acts of bribery, extortion, fraud, money laundering and corruption. In this regard, we have particularly prepared the Anti-fraud, Anti-corruption and Anti-money Laundering Management System of Shijiazhuang Saintach Education and Technology Co., Ltd. (《石家莊新天際教育科技有限公司反舞弊、貪污及洗錢管理制度》) and the Anti-fraud, Anti-corruption and Anti-money Laundering Management System of Saintach Child Education (《新天際幼兒教育反舞弊、貪污及洗錢管理制度》), and have formulated the Contract Management Measures (《合同管理辦法》) and the Bidding Management Measures (《招標管理辦法》) to further avoid the corruption and bribery demand that may occur in the procurement process. In addition, we have also strengthened the promotion and training of professional ethics in the staff manual and induction training, and implemented an effective reporting mechanism at the same time to prevent any misconduct or irregularity that may occur.

According to the requirements of the Anti-fraud, Anti-corruption and Anti-money Laundering Management System of Shijiazhuang Saintach Education and Technology Co., Ltd. (《石家莊新天際教育科技有限公司反舞弊、貪污及洗錢管理制度》), we have set up a special permanent anti-fraud establishment to manage anti-fraud, anti-corruption and anti-money laundering activities at the group level. We advocate the corporate culture of honesty and integrity, assess the risks of fraud, corruption and money laundering, establish a control mechanism to put continuous control into practice, and continue to improve the institutionalization of anti-fraud, anti-corruption, anti-money laundering programs. For the reports made by the staff or external third parties through emails or reporting telephone numbers in real name or anonymously, we require the permanent establishment to receive, retain and handle the allegations and keep a written record. The results and the reports of the investigation of such allegations will be submitted by the permanent establishment to the Audit Committee, management and the Board according to the nature thereof.

During the Reporting Period, we did not receive any corruption lawsuit brought against 21st Century Education or any of its staff.

Actively Responding to Customers

21st Century Education attaches great importance to the opinions and evaluations of parents and students. We believe that a sound complaint management mechanism will help improve the quality of services and enhance the image of the Company in the minds of parents and students. Therefore, we have formulated rationalized policies and measures, such as the Management System for Complaints from Parents/Students (《家長/學生投訴的管理制度》) and the Management Measures of Shijiazhuang Institute of Technology for Filing Complaints by In-school Students (Trial) (《石家莊理工職業學院學生校內申訴管理辦法(試行)》), which have further standardized our complaint response measures:

- Establishing a complaint handling organization;
- Specifying the requirements for complaint handling; and
- Formulating the procedures for handling complaints and the specific requirements and procedures for hearing.

During the Reporting Period, we received 19 complaints in total, which were all resolved through exchange, communication and improvement.

CARRYING FORWARD CARING SPIRIT

21st Century Education has always attached great importance to social welfare undertakings since its inception:

- Serving the community with professionalism and enthusiasm, and actively participating in community public welfare projects;
- Paying attention to the elderly staying alone at home and left-behind children, and providing assistance to them by exploring various ways;
- Bringing quality teaching materials and tools to the classrooms in remote rural areas and inviting music masters to bring musical enlightenment experience to the children living in mountains; and
- Actively participating in voluntary blood donation, special education and charitable fundraising activities.

In order to ensure and strengthen 21st Century Education's teaching activities, course products and operation services to practically and effectively implement environmental and social management, and to serve the society in light of the Company's actual situation, we have formulated the Implementation Measures of Saintach Education for the Policies Regarding Social, Environmental and Other Public Welfare Activities (《新天際教育關於社會、環境等公益活動政策的執行辦法》).

Promoting Charity

In view of the industry characteristics and advantages of 21st Century Education, we pay more attention to education and children's attention when carrying out public welfare activities. During the Reporting Period, we organized or participated in a number of community charity activities for education assistance and child protection.

Tencent's "99 Charity Day" · Doubling Our Love

Together with Tencent Charity (騰訊公益) and the Lionful Foundation (新聯合公益基金會), we launched the donation campaign for the poor children's major illness insurance named "Blessed Happiness and Love for Children (有福童享有愛擔當)" from 7 to 9 September 2018. We visited families in poverty-stricken counties in Hebei Province, such as Kangbao, Laiyuan, Lingshou and Zanhuang, and provided each of the 10,000 children who were facing the threat of serious illnesses with a major illness insurance worth RMB50,000, through which we aimed to illuminate the road ahead for these impoverished children, raise their courage to move forward and guard their future with warmness and love as well as the great power of love.

The Shijiazhuang Institute of Technology was honored as the "Charity Base of Shijiazhuang"

On 6 May 2018, the large-scale charity event of 2018 Citizens' Charity Day jointly sponsored by the Spiritual Civilization Office of Shijiazhuang, Capital of Hebei Province and Shijiazhuang Radio and Television Networks was successfully held in Shijiazhuang City. The event aims to convey the charitable spirit of "spending time in volunteering", and appeal to and call on the citizens to spend weekend leisure time in actively participating in charitable activities for the construction of urban civilization. On the day of the event, the Young Volunteers Association of the Shijiazhuang Institute of Technology organized 30 students to go to the Century Park to clean rubbish, discourage uncivilized behaviors and organize shared bicycles parked in disorder, and won the honorary title of "Charity Base of Shijiazhuang".

BUILDING GREEN CAMPUS

As an education enterprise, 21st Century Education does not cause any material impact on the environment and natural resources during its daily operations. Despite this, we still attach great importance to environmental protection, advocate the concept of low-carbon operation, and strive to integrate the concept of environmental protection into the cultivation and education of the new generation.

Controlling Pollutant Emission

We comply with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》) and other laws and regulations, and strictly control the generation and emission of air pollutants and wastes to ensure that the operation and management of the school areas does not violate relevant laws and regulations. During the Reporting Period, we did not have any non-compliance relating to environmental protection.

During the Reporting Period, our emissions mainly include wastewater, air pollutants and carbon dioxide emissions. The wastewater mainly came from the domestic sewage produced by students from study and daily life, and was discharged to the municipal sewage treatment pipe network instead of directly discharging into the soil and natural water bodies. The air pollutants mainly came from the natural gas consumed for supplying heat to the school area and the liquidified petroleum gas used by canteens. Greenhouse gas emissions are generated by fossil energy consumption (Scope 1) and purchased electricity (Scope 2) in the above processes. The specific data are as follows[2]:

Statistics on air pollutant emissions[3]

Type of fuel	Smoke (g)	Nitric Oxide (kg)	Sulfur Oxide (kg)
Petroleum gas	421.2	405.9	1,800
Natural gas	374.7	3,747	149.9
Total emission	795.9	4,152.9	1,949.9

Statistics on greenhouse gas emissions[4]

Source of emission	Carbon dioxide equivalent (ton)	Intensity (ton/person)[5]
Petroleum gas (Scope 1)	265.8	0.02
Natural gas (Scope 1)	810.2	0.05
Purchased electricity (Scope 2)	5,622.5	0.37
Trees planted[6]	–3.1	–0.0002

2 Unless otherwise stated, all the data disclosed by us hereafter shall be based on the statistical caliber of the Shijiazhuang Institute of Technology.

3 The air pollutant emission factors of petroleum gas and natural gas were determined with reference to the Manual on the Pollution Generation and Emission Factors of Urban Domestic Sources under the First National Pollution Source Survey (《第一次全國污染源普查城鎮生活源產排污係數手冊》) issued by the Office of the Leading Group for the First National Pollution Source Survey under the State Council.

4 The greenhouse gas emission factors of petroleum gas and natural gas were determined with reference to the Accounting Methods and Reporting Guide for the Greenhouse Gas Emissions of Public Building Operators (Trial) (《公共建築運營企業溫室氣體排放核算方法和報告指南(試行)》) issued by the National Development and Reform Commission, and the greenhouse gas emission factors of purchased electricity were determined with reference to the Average Carbon Dioxide Emission Factors for the Electric Networks in China in 2011 and 2012 (《2011 年和2012 年中國區域電網平均二氧化碳排放因子》) issued by the National Development and Reform Commission.

5 The denominator used in the calculation of the intensity is 15,139, i.e. the sum of the number of students (13,955) and the number of faculties (1,184) in the Shijiazhuang Institute of Technology.

6 The Shijiazhuang Institute of Technology planted a total of 133 trees with a height of more than 5 meters in 2018. The emission reduction coefficient of the trees is determined with reference to those set out in the Reporting Guidelines for Environmental Key Performance Indicators (《環境關鍵績效指標匯報指引》) in Appendix II to How to Prepare Environmental, Social and Governance Report (《如何準備環境、社會及管治報告》).

Our non-hazardous waste mainly includes common waste in school areas, including domestic waste, kitchen waste and various paper products. According to statistics, during the Reporting Period, the total amount of non-hazardous waste generated by us was approximately 1,300 tons, and was collectively recycled and disposed of by third-party companies. Our hazardous waste is mainly a small amount of chemical reagents or organic solvents that may be used in science and engineering curriculum, and was recycled and disposed of by a qualified third-party company.

In order to reduce the non-hazardous waste in offices and school areas, we actively promote the following measures:

- Paperless office, network-based office, trying our best to use electronic documents, e-mail, network tools, etc. for communication, so as to reduce paper use;
- Strictly managing office supplies to increase reuse rate; and
- Arranging staff to clean devices and appliances to extend their useful life, thus reducing waste devices and appliances.

Optimizing Resource Utilization

In terms of resource utilization, 21st Century Education adheres to the principles of protecting the environment and rationally and effectively utilizing energy and resources, continuously promotes the management and control of energy and resources, and has formulated the Regulations on the Management of Resource Utilization (《資源使用管理規定》) based on its needs. These regulations focus on the management department's responsibilities and management requirements, and provide for the water and electricity use of the Shijiazhuang Institute of Technology:

Water Management	Strengthening publicity and education to cultivate the habit of saving water and turning off the tap
	Enhancing daily inspections and reporting for repair in a timely manner in the case of water running, emitting, dripping and leaking
	Assessing water conservation and incorporating it as a criteria for performance appraisal
	Advocating water reuse and recycling
Electricity Management	Turning on fewer lights when there are fewer people in the office, and turning off the lights when the office is bright or when leaving the office
	Enhancing daily inspections to turn off unnecessary power source and lights
	Trying to use energy-saving lights, solar lights and eliminating ordinary incandescent lights
	Turning off the power source when off work, and turning off computer equipment when leaving the post for more than 4 hours

During the Reporting Period, the energy used by the Shijiazhuang Institute of Technology directly and indirectly mainly included fossil fuels and purchased electricity; since the water we used was mainly from municipal water pipes, we have no special problems in obtaining water sources. The specific information on the use of resources and energy is shown in the following table:

Use of energy[7]

Type of energy	Energy consumption (thousand kWh)[8]	Intensity (thousand kWh/ person)[9]
Petroleum gas	1,182.5	0.1
Natural gas	4,052.0	0.3
Purchased electricity	6,358.2	0.4
	Consumption (ton)	**intensity (ton/person)[10]**
Use of water	411,050	27.2

During the Reporting Period, we took a variety of measures to put into practice the environmental protection concept of conserving energy and resources:

Type of energy/ resource	Implementation plan	Implementation schedule
Electricity	Electronic control modification in No.11 Student Apartment Building	July to August
	Changing public lights to apply sound and light control	January to April
Water	Replacing the leaking valves	February
	Repairing fire pipes	July to August
	Modifying bathrooms to apply automatic flushing devices	July to August
Natural gas	Stopping heat supply during winter vacation	January to February
	Carrying out maintenance on boilers to improve thermal efficiency	August

7 The lower calorific value used for converting petroleum gas and natural gas into energy was determined with reference to the Accounting Methods and Reporting Guide for the Greenhouse Gas Emissions of Public Building Operators (Trial) (《公共建築運營企業溫室氣體排放核算方法和報告指南（試行）》) issued by the National Development and Reform Commission.

8 The unit for converting fossil fuel consumption was the default value of special factors provided by the Accounting Methods and Reporting Guide for the Greenhouse Gas Emissions of Public Building Operators (Trial) (《公共建築運營企業溫室氣體排放核算方法和報告指南(試行)》) for common fossil fuels.

9 The denominator used in the calculation of the intensity is 15,139, i.e. the sum of the number of students (13,955) and the number of faculties (1,184) in the Shijiazhuang Institute of Technology.

10 The denominator used in the calculation of the intensity is 15,139, i.e. the sum of the number of students (13,955) and the number of faculties (1,184) in the Shijiazhuang Institute of Technology.

CONTENT INDEX

The general disclosures and key performance indicators (KPIs) under the Environmental, Social and Governance Reporting Guide of the Stock Exchange:

Subject Areas, Aspects, General Disclosures and KPIs "Comply or explain" Provisions			Where to find the disclosures
A. Environmental			
Aspect A1: Emissions	General Disclosure Information on: (A) the policies; and (B) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. Note: Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations. Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. Hazardous wastes are those defined by national regulations.		"Building Green Campus"
	KPI A1.1	The types of emissions and respective emissions data.	"Controlling Pollutant Emission"
	KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Controlling Pollutant Emission"
	KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Controlling Pollutant Emission"

Subject Areas, Aspects, General Disclosures and KPIs "Comply or explain" Provisions			Where to find the disclosures
	KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	"Controlling Pollutant Emission"
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	"Controlling Pollutant Emission"
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	"Controlling Pollutant Emission"
Aspect A2: Use of Resources	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.		"Optimizing Resource Utilization"
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in'000s) and intensity (e.g. per unit of production volume, per facility).	"Optimizing Resource Utilization"
	KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	"Optimizing Resource Utilization"
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	"Optimizing Resource Utilization"
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	"Optimizing Resource Utilization"
	KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable to education industry
Aspect A3: The Environment and Natural Resources	General Disclosure Policies on minimising the issuer's significant impact on the environment and natural resources.		"Building Green Campus"
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	"Building Green Campus"

Subject Areas, Aspects, General Disclosures and KPIs				
	"Comply or explain" Provisions	Recommended Disclosures		Where to find the disclosures
B. Social				
Employment and Labour Practices				
Aspect B1: Employment	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	KPI B1.1 KPI B1.2	Total workforce by gender, employment type, age group and geographical region. Employee turnover rate by gender, age group and geographical region.	"Selecting Outstanding Talents", "Protecting Staff's Rights and Interests"
Aspect B2: Health and Safety	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	KPI B2.1 KPI B2.2 KPI B2.3	Number and rate of work-related fatalities. Lost days due to work injury. Description of occupational health and safety measures adopted, how they are implemented and monitored.	"Guaranteeing Safety and Health"

Subject Areas, Aspects, General Disclosures and KPIs				
	"Comply or explain" Provisions	Recommended Disclosures		Where to find the disclosures
Aspect B3: Development and Training	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. Note: Training refers to vocational training. It may include internal and external courses paid by the employer.	KPI B3.1 KPI B3.2	The percentage of employees trained by gender and employee category (e.g. senior management, middle management). The average training hours completed per employee by gender and employee category.	"Providing a Platform for Development"
Aspect B4: Labour Standards	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	KPI B4.1 KPI B4.2	Description of measures to review employment practices to avoid child and forced labour. Description of steps taken to eliminate such practices when discovered.	"Building a Team of Elites" and "Selecting Outstanding Talents"

Subject Areas, Aspects, General Disclosures and KPIs			Where to find the disclosures
	"Comply or explain" Provisions	Recommended Disclosures	
Operating Practices			
Aspect B5: Supply Chain Management	General Disclosure Policies on managing environmental and social risks of the supply chain.	KPI B5.1 Number of suppliers by geographical region. KPI B5.2 Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	"Regulating Procurement Activities"
Aspect B6: Product Responsibility	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	KPI B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons. KPI B6.2 Number of products and service related complaints received and how they are dealt with. KPI B6.3 Description of practices relating to observing and protecting intellectual property rights. KPI B6.4 Description of quality assurance process and recall procedures. KPI B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored.	"Guaranteeing Safety and Health", "Actively Responding to Customers", "Operating in Compliance with Laws and Regulations", "Superior Teaching Management" (21st Century Education is not involved in any business for which product recall may arise for health or safety reasons)

Subject Areas, Aspects, General Disclosures and KPIs				Where to find the disclosures
	"Comply or explain" Provisions	Recommended Disclosures		
Aspect B7: Anti-corruption	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	KPI 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.	"Resolutely Resisting Corruption"
		KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	
Community				
Aspect B8: Community Investment	General Disclosure Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	"Carrying Forward Caring Spirit"
		KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	"Promoting Charity"

IX. Independent Auditor's Report

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To the Shareholders of China 21st Century Education Group Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China 21st Century Education Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 117 to 191, 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 (the "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
Revenue recognition	
The occurrence and completeness of the Group's revenue are of high inherent risk because of the large volume of tuition and boarding fees. In addition, tuition and boarding fees paid in advance at or prior to the beginning of each academic year are recognised as revenue proportionately over the financial years covering that academic year or the applicable program. Therefore, revenue may be recorded in the incorrect period of the financial year. The accounting policy for revenue recognition and disclosure of the amount of revenue are included in notes 2.4 and 5 to the financial statements.	As to our audit procedures, we: • tested the controls on the collection of tuition and boarding fees and the controls designed and applied by the Group to calculate the contract liabilities and the corresponding amount of revenue; • on a sampling basis, interviewed students, reviewed and checked the relevant supporting documents including the student payment records, official student records registered with the relevant education authorities of the People's Republic of China (the "PRC"), and the payment remittance receipts of tuition and boarding fees; • recalculated the amount of contract liabilities and revenue recognised during the year; and • reconciled the number of newly enrolled students during the year to the enrolment approval by the relevant PRC education authorities, and the total number of students at the financial year end to the records on China Credentials Verification website.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Income tax According to the Regulations for the Implementation of the Law on the Promotion of Non-public Schools of the People's Republic of China (the "Implementation Regulations"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. The Implementation Regulations provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. Up to 31 December 2018, no separate policies, regulations or rules have been introduced by the authorities in this regard. No corporate income tax was provided on the income from provision of formal educational services by certain schools in the People's Republic of China (the "Certain PRC Schools"). Significant judgement is required in determining the provision for income taxes as there are uncertainties in interpreting the relevant tax laws and regulations in respect to the preferential tax treatments enjoyed by the Certain PRC Schools. The Group has assessed income tax obligations, and there were significant judgements involved in the management's analysis and assessment, such as an assessment on possible outcome of the tax provision based on historical experiences, and estimations about future events after 31 December 2018 that may cause the Group to change its judgements regarding the adequacy of the tax liabilities. Such changes to tax liabilities will impact the tax expense in the period that such determination is made. Relevant disclosures are included in note 3 "Significant Accounting Judgements and Estimates" and note 10 "Income Tax" to the financial statements.	As to our audit procedures, we: • discussed with the Group's PRC legal advisors about the tax position taken by the Certain PRC Schools particularly in respect of the eligibility of the preferential tax treatment under relevant tax rules and regulations; • assessed any new policies, regulations or rules that have been introduced by the authorities up to the date of this report, which might have an impact on the tax position of the Certain PRC Schools; • checked to historical tax returns; • involved our internal tax experts to assist us in analysing the preferential tax treatments enjoyed by the Certain PRC Schools and assessing the adequacy of tax provisions; and • evaluated the adequacy of the Group's disclosures regarding income tax.

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.

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.

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

- 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.

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 Hui Kin Fai Stephen.

Ernst & Young
Certified Public Accountants

Hong Kong
22 March 2019

X. Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**201,995**	169,741
Cost of sales		**(99,691)**	(93,362)
Gross profit		**102,304**	76,379
Other income and gains	5	**10,590**	10,097
Selling and distribution expenses		**(7,618)**	(8,005)
Administrative expenses		**(31,474)**	(28,767)
Other expenses		**(944)**	(438)
Finance costs	7	**(2,662)**	(3,843)
PROFIT BEFORE TAX	6	**70,196**	45,423
Income tax expense	10	**(776)**	(385)
PROFIT FOR THE YEAR		**69,420**	45,038
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**25,946**	26
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**25,946**	26
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**95,366**	45,064
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted			
– For profit for the year	12	**RMB6.48 cents**	RMB5.36 cents

XI. Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**125,541**	122,256
Prepaid land lease payments	14	**58,583**	60,341
Goodwill	15	**17,121**	–
Other intangible assets	16	**2,584**	1,110
Total non-current assets		**203,829**	183,707
CURRENT ASSETS			
Trade receivables	18	**1,885**	1,179
Contract costs	17	**2,663**	–
Prepayments, other receivables and other assets	19	**17,662**	21,347
Amounts due from related parties	33(b)	**2,815**	1,314
Term deposits	20	**162,638**	70,000
Pledged deposits	20	**105,000**	–
Cash and bank balances	20	**259,491**	39,864
Total current assets		**552,154**	133,704
CURRENT LIABILITIES			
Other payables and accruals	21	**83,272**	64,554
Contract liabilities	22	**71,637**	–
Deferred revenue	22	**–**	57,530
Interest-bearing bank and other borrowings	23	**13,000**	34,385
Tax payable		**2,285**	1,849
Total current liabilities		**170,194**	158,318
NET CURRENT ASSETS/(LIABILITIES)		**381,960**	(24,614)
TOTAL ASSETS LESS CURRENT LIABILITIES		**585,789**	159,093
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**–**	721
Deferred rental obligation	24	**717**	781
Deferred tax liabilities	25	**167**	–
Total non-current liabilities		**884**	1,502
Net assets		**584,905**	157,591

XI. Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
EQUITY			
Share capital	26	**10,323**	–
Treasury shares		**(37)**	–
Reserves	28	**574,619**	157,591
Total equity		**584,905**	157,591

LI YUNONG
Director

LIU ZHANJIE
Director

XII. Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Share capital RMB'000 *(note 26)*	Treasury shares^ RMB'000 *(note 26)*	Share premium* RMB'000 *(note 28)*	Capital reserve* RMB'000 *(note 28)*	Capital redemption reserve* RMB'000 *(note 28)*	Statutory surplus reserve* RMB'000 *(note 28)*	Share option reserve* RMB'000 *(note 27)*	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000 *(note 28)*	Retained profits* RMB'000	Total RMB'000
At 31 December 2017	-	-	-	54,796	-	63,700	-	26	1,631	37,438	157,591
Effect of adoption of IFRS 15	-	-	-	-	-	-	-	-	-	1,077	1,077
At 1 January 2018	-	-	-	54,796	-	63,700	-	26	1,631	38,515	158,668
Profit for the year	-	-	-	-	-	-	-	-	-	69,420	69,420
Other comprehensive income for the year:											
Exchange differences related to foreign operations	-	-	-	-	-	-	-	25,946	-	-	25,946
Total comprehensive income for the year	-	-	-	-	-	-	-	25,946	-	69,420	95,366
Capitalisation of share premium	7,082	-	(7,082)	-	-	-	-	-	-	-	-
Issue of shares	3,339	-	363,696	-	-	-	-	-	-	-	367,035
Shares repurchased	(98)	(37)	(12,990)	-	98	-	-	-	-	(98)	(13,125)
Share issue expense	-	-	(23,305)	-	-	-	-	-	-	-	(23,305)
Transfer from retained profits	-	-	-	-	-	16,796	-	-	-	(16,796)	-
Equity-settled share option arrangements	-	-	-	-	-	-	266	-	-	-	266
At 31 December 2018	10,323	(37)	320,319	54,796	98	80,496	266	25,972	1,631	91,041	584,905

Year ended 31 December 2018

	Share capital RMB'000 (note 26)	Capital reserve* RMB'000 (note 28)	Statutory surplus reserve* RMB'000 (note 28)	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000 (note 28)	Retained profits* RMB'000	Total RMB'000
At 1 January 2017	–	54,196	52,410	–	1,631	3,690	111,927
Profit for the year	–	–	–	–	–	45,038	45,038
Other comprehensive income for the year:							
Exchange differences related to foreign operations	–	–	–	26	–	–	26
Total comprehensive income for the year	–	–	–	26	–	45,038	45,064
Transfer from retained profits	–	–	11,290	–	–	(11,290)	–
The Reorganisation#	–	600	–	–	–	–	600
At 31 December 2017	–	54,796	63,700	26	1,631	37,438	157,591

^ During the year, the Company repurchased 15,459,000 of its shares on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). As at 31 December 2018, 11,202,000 of the repurchased shares were cancelled and the remaining 4,257,000 repurchased shares were presented as treasury shares amounting to RMB37,000 which were subsequently cancelled on 22 February 2019.

* These reserve accounts comprise the consolidated reserves of RMB574,619,000 in the consolidated statement of financial position as at 31 December 2018 (2017: RMB157,591,000).

\# The Group underwent certain reorganisation activities (the "Reorganisation") in year 2017 for the purpose of listing its shares on the Stock Exchange.

XIII. Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**70,196**	45,423
Adjustments for:			
Finance costs	*7*	**2,662**	3,843
Interest income	*5*	**(3,241)**	(648)
Depreciation	*6*	**10,730**	10,813
Amortisation of intangible assets	*6*	**230**	211
Recognition of prepaid land lease payments		**1,758**	1,758
Provision for equity-settled share option expense	*27*	**266**	–
Loss on disposal of items of property, plant and equipment	*6*	**371**	249
		82,972	61,649
Decrease/(increase) in prepayments, other receivables and other assets		**21,139**	(4,051)
Increase in trade receivables		**(706)**	(571)
Increase in contract cost		**(1,586)**	–
Increase in amount due from a related party		**(1,589)**	(1,314)
Increase in other payables and accruals		**9,619**	1,683
Increase in contract liabilities		**14,104**	–
Increase in advances from customers		**–**	9,312
Decrease in other non-current liabilities		**(64)**	(181)
Cash generated from operations		**123,889**	66,527
Interest received		**338**	133
Income tax paid		**(351)**	(183)
Net cash flows from operating activities		**123,876**	66,477
CASH FLOWS FROM INVESTING ACTIVITIES			
Repayment of advances from related parties		**–**	48,285
Payment in respect of the Reorganisation		**–**	(14,400)
Net cash outflow in respect of acquisition of a subsidiary	*29*	**(10,432)**	–
Interest received		**1,669**	–
Purchases of items of property, plant and equipment		**(15,282)**	(6,024)
Additions to intangible assets	*16*	**(588)**	(448)
Net cash inflow in respect of disposal of operating assets of certain kindergartens		**–**	2,000
Proceeds from disposal of items of property, plant and equipment		**7**	–
Increase in pledged deposits		**(105,000)**	–
Increase in non-pledged term deposits with original maturity of more than three months		**(92,638)**	(70,000)
Net cash flows used in investing activities		**(222,264)**	(40,587)

Year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		**13,000**	30,000
Repayment of bank and other borrowings		**(35,106)**	(29,216)
Additional capital contribution		**–**	15,000
Listing expenses paid		**(37,018)**	(3,181)
Interest paid		**(2,805)**	(3,910)
Proceeds from issue of shares on initial public offering and the over-allotment option		**367,035**	–
Repurchase of shares		**(13,125)**	–
Net cash flows from financing activities		**291,981**	8,693
NET INCREASE IN CASH AND CASH EQUIVALENTS		**193,593**	34,583
Cash and cash equivalents at beginning of year		**39,864**	5,320
Effect of foreign exchange rate changes, net		**26,034**	(39)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**259,491**	39,864
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position and statement of cash flows	*20*	**259,491**	39,864

31 December 2018

1. CORPORATE INFORMATION

China 21st Century Education Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 20 September 2016. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. Shares of the Company were listed on the Stock Exchange on 29 May 2018.

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in providing educational services and related management services in the People's Republic of China (the "PRC").

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Sainange Holdings Company Limited, which is incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Company name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Sainage Investment Limited (新安投資有限公司)	BVI 19 October 2016	US$ 50,000	100	–	Investment holding
21st Century Education (HK) Investment Limited (香港21世紀教育投資有限公司)	Hong Kong 1 November 2016	HK$ 10,000	–	100	Investment holding
Saintach Education (HK) Investment Limited (香港新天際教育投資有限公司)	Hong Kong 3 November 2016	HK$ 10,000	–	100	Investment holding
河北晟道象成教育科技有限公司 Hebei Sheng Dao Xiang Cheng Education and Technology Co., Ltd.*# ("Sheng Dao Xiang Cheng")	PRC/ Mainland China 14 December 2016	US$ 500,000	–	100	Provision of technical and management consultancy services
河北澤瑞教育科技有限公司 Hebei Zerui Education Technology Co., Ltd. ("Zerui Education")	PRC/ Mainland China 12 July 2017	RMB 40,000,000	–	100	Investment holding

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1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
石家莊理工職業學院 Shijiazhuang Institute of Technology*#	PRC/ Mainland China 1 July 2003	RMB5,000,000	–	100	Provision of university education services and relevant management services
河北新天際教育科技有限公司 Hebei Saintach Education and Technology Co., Ltd.*# ("Hebei Saintach")	PRC/ Mainland China 17 September 2002	RMB 10,000,000	–	100	Investment holding and provision of kindergarten management service
石家莊市橋西區新天際藍水晶幼兒園 Shijiazhuang Qiaoxi District Blue Crystal Saintach Kindergarten*# ("Blue Crystal")	PRC/ Mainland China 4 January 2011	RMB900,000	–	100	Provision of kindergarten education service
正定縣新天際幼兒園 Zhengding County Saintach Kindergarten*# ("Zhengding")	PRC/ Mainland China 28 September 2012	RMB500,000	–	100	Provision of kindergarten education service
石家莊市鹿泉區新天際福康幼兒園 Shijiazhuang Luquan District Fukang Saintach Kindergarten*# ("Fukang")	PRC/ Mainland China 12 October 2012	RMB500,000	–	100	Provision of kindergarten education service
石家莊市長安區新天際清暉幼兒園 Shijiazhuang Chang'an District Qinghui Saintach Kindergarten*# ("Qinghui")	PRC/ Mainland China 29 March 2013	RMB500,000	–	100	Provision of kindergarten education service
石家莊高新技術產業開發區新天際天山幼兒園 Shijiazhuang High-tech Industrial Development Zone Tianshan Saintach Kindergarten*# ("Tianshan")	PRC/ Mainland China 20 May 2013	RMB500,000	–	100	Provision of kindergarten education service

31 December 2018

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
石家莊市長安區新天際建華幼兒園 Shijiazhuang Chang'an District Jianhua Saintach Kindergarten*# ("Jianhua")	PRC/ Mainland China 7 March 2014	RMB100,000	–	100	Provision of kindergarten education service
石家莊市橋西區新天際麗都幼兒園 Shijiazhuang Qiaoxi District Lidu Saintach Kindergarten*# ("Lidu")	PRC/ Mainland China 29 June 2015	RMB500,000	–	100	Provision of kindergarten education service
正定縣新天際福門裡幼兒園 Zhengding County Fumenli Saintach Kindergarten*# ("Fumenli")	PRC/ Mainland China 29 April 2015	RMB500,000	–	100	Provision of kindergarten education service
石家莊新天際教育科技有限公司 Shijiazhuang Saintach Education and Technology Co., Ltd.*# ("Shijiazhuang Saintach")	PRC/ Mainland China 13 July 2011	RMB3,000,000	–	100	Investment holding and provision of after-school tutoring service
石家莊市橋西區智城培訓學校 Shijiazhuang Qiaoxi District Zhicheng Tutorial School*# ("Zhicheng")	PRC/ Mainland China 26 February 2009	RMB1,000,000	–	100	Provision of after-school tutoring service
石家莊市長安區新天際培訓學校 Shijiazhuang Chang'an District Saintach Tutorial School*# ("Chang'an")	PRC/ Mainland China 20 April 2010	RMB1,000,000	–	100	Provision of after-school tutoring service
石家莊市橋西區雙語文化培訓學校 Shijiazhuang Qiaoxi District Bilingual Culture Tutorial School*# ("Qiaoxi")	PRC/ Mainland China 26 November 2013	RMB200,000	–	100	Provision of after-school tutoring service
石家莊市裕華區東崗路新天際培訓學校 Shijiazhuang Yuhua District Donggang Road Saintach Tutorial School*# ("Donggang")	PRC/ Mainland China 1 February 2016	RMB1,000,000	–	100	Provision of after-school tutoring service
石家莊市新華區慧軒教育培訓學校 Shijiazhuang Xinhua District Huixuan Education Tutorial School*# ("Huixuan")	PRC/ Mainland China 3 August 2016	RMB300,000	–	100	Provision of after-school tutoring service

31 December 2018

1. CORPORATE INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Company name	Place and date of incorporation/ establishment and place of operations	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
石家莊市高新區新天際培訓學校 Shijiazhuang High-tech Industrial Development Zone Saintach Tutorial School*# ("Tianshan")	PRC/ Mainland China 19 December 2016	RMB500,000	–	100	Provision of after-school tutoring service
北京新天地線信息技術有限公司 Beijing Xin Tian Di Xian Information and Technology Co.,Ltd.* ("Xin Tian Di Xian")	PRC/ Mainland China 6 March 2015	RMB3,157,900	–	100	Provision of technical service

* The English names of all the above companies represent the best effort made by the Directors to translate the Chinese names as these companies have not been registered with any official English names.

\# These entities are owned through contractual arrangements.

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and interpretations) issued by the International Accounting Standards Board ("IASB"), and the discolsure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. 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 Group 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.

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2.1 BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation (continued)

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 Company 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.

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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4, IAS 40 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the consolidated statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

	IAS 39 Measurement		Reclassification	ECL	IFRS 9 Measurement	
	Category	Amount RMB'000	RMB'000	RMB'000	Category	Amount RMB'000
Financial assets						
Trade receivables	L&R[1]	1,179	–	–	AC[2]	1,179
Amount due from related parties	L&R	1,314			AC	1,314
Financial assets included in prepayments,other receivables and other assets	L&R	8,372	–	–	AC	8,372
Term deposits	L&R	70,000	–	–	AC	70,000
Cash and bank balances	L&R	39,864	–	–	AC	39,864
		120,729	–	–		120,729
Financial liabilities						
Financial liabilities included in other payables and accruals	AC	29,265	–	–	AC	29,265
Interest-bearing bank and other borrowings	AC	35,106	–	–	AC	35,106
		64,371	–	–		64,371

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

Impairment

IFRS 9 requires an impairment on financial assets to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis.

The assessment of the Group's impairment losses for financial assets was made as of the date of initial application, 1 January 2018. The adoption of IFRS 9 has no significant impact on the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking ECL approach.

Impact on reserves and retained profits

The adoption of IFRS 9 has had no impact on the Group's reserves and retained profits.

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) IFRS 15 and its amendments replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	**Increase/ (decrease)** RMB'000
Assets		
Contract costs	*(i)*	1,077
Liabilities		
Deferred revenue	*(ii)*	(57,530)
Contract liabilities	*(ii)*	57,530
		–
Equity		
Retained profits		1,077

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Note	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
Selling and distribution expenses		7,618	8,205	(587)
Profit before tax		70,196	69,609	587
Profit for the year		69,420	68,833	587
Earnings per share attributable to ordinary equity holders of the Company				
Basic and diluted		RMB6.48 cents	RMB6.43 cents	RMB0.05 cent

Consolidated statement of financial position as at 31 December 2018:

	Notes	Amounts prepared under IFRS 15 RMB'000	Previous IFRS RMB'000	Increase/ (decrease) RMB'000
Contract costs	*(i)*	2,663	–	2,663
Total Assets		2,663	–	2,663
Deferred revenue	*(ii)*	–	71,637	(71,637)
Contract liabilities	*(ii)*	71,637	–	71,637
Total liabilities		71,637	71,637	–

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) (continued)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss for the year ended 31 December 2018 are described below:

(i) ***Commissions paid for referral of students***

The Group would pay commission fees for successful referral of students. Before the adoption of IFRS 15, such commission fees were charged to profit or loss when incurred. Under IFRS 15, those commission fees meet the recognition criteria of contract costs and are capitalised for amortisation in a systemic basis with the transfer of services of education programs over the academic year or the applicable program. At 1 January 2018, certain commission fee of RMB1,077,000 was capitalised which resulted in an increase in retained profits of RMB1,077,000. As at 31 December 2018, there were contract costs of RMB2,663,000 included in the current assets, which would have been recognised in profit or loss for the year without application of IFRS 15.

(ii) ***Consideration received from students in advance***

Before the adoption of IFRS 15, the Group recognised consideration received from students in advances as deferred revenue. Under IFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB57,530,000 from deferred revenue to contract liabilities as at 1 January 2018 in relation to the consideration received from students in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB71,637,000 was reclassified from deferred revenue to contract liabilities in relation to the consideration received from students in advance for the provision of education related services.

2.3 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]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
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

Further information about those IFRSs that are expected to be applicable to the Group is described below.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

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.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *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. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the modified retrospective approach 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 preliminary assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of approximately RMB59 million and lease liabilities of approximately RMB57 million will be recognised at 1 January 2019.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

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.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019.

As disclosed in note 10 to the financial statements, no separate policies, regulations or rules have been introduced by the authorities for tax treatment, there will be uncertainty whether the schools could follow previous PRC Corporate Income Tax ("Corporate income tax") exemption treatment for the tuition related income when facts and circumstances change or new information become available.

The directors of the Company would reassess any judgements and estimates if the facts and circumstances change or new information becomes available.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 whether 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 fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

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.

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

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.

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) as at the end of each reporting period.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

An assessment is made as at the end of each reporting period 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.

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; and the sponsoring employers of the post-employment benefit plan;

  (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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment 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.

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 and facilities	4.75% to 19.00%
Leasehold improvements	20.00%
Equipment	19.00% to 31.67%
Furniture and fixtures	19.00%
Motor vehicles	11.88% to 23.75%

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 as 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 sale proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents buildings or equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs 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 as at each financial year end.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on a straight-line basis over its estimated useful life of 5 to 10 years.

Other intangible assets

Other intangible assets mainly represent certain media platforms arising from the acquisition of a subsidiary (note 29) that are stated at cost less any impairment losses and are amortised on a straight-line basis over their estimated useful lives ranging from 3 to 5 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the statement of 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 the statement of 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 a straight-line basis over the lease terms.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

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 (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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 the statement of profit or loss when the asset is derecognised, modified or impaired.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the statement of profit or loss and other comprehensive income in finance costs for loans and in administrative expenses for receivables.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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.

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 risk 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 (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 30 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.

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.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss and other comprehensive income.

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

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 and accruals and loans from the ultimate holding company and related parties.

Subsequent measurement

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

Loans and borrowings

After initial recognition, 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 the statement of profit or loss and other comprehensive income.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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 (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

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 each 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 as at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.4 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 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 associates, when 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 carry forward 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, and the carry forward 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, joint ventures and associate, 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 as 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 as 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 each reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018)

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.

Tuition and boarding fees are generally received by the college, tutorial centers and kindergartens in advance prior to the beginning of each academic year or the applicable program, and are initially recorded as contract liabilities. Tuition and boarding fees are recognised proportionately over the relevant period of the academic year of the applicable program. The portion of tuition and boarding payments received from students but not earned is recorded as contract liabilities and is reflected as a current liability as such amounts represent revenue that the Group expects to earn within one year.

The Group does not expect to have significant contracts where the period between the transfer of the promised services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Interest income 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.

College management service income and other services income are recognised when services are provided.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Service income includes: (a) tuition fees, boarding fees and the college operation service fees from the college; (b) tuition fees from kindergartens; (c) tuition fees from tutorial centers; and (d) franchise service fees from the kindergarten franchisees.

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

    College operation service fees represent service income derived from the provision of college operation services by the Group which includes school operation services and accommodation services provided to the students. The school operation service income is recognised upon the delivery of the relevant services. Accommodation service fees are collected from the students in advance and are subsequently recognised proportionately over the relevant period of the applicable program;

(b) Tuition fees from kindergartens are generally received in advance at the beginning of every month and is recognised as revenue when the service is provided;

(c) Tuition fees from tutorial centers are collected in advance on a lump-sum basis. Revenue is recognised after a service contract is signed and the tutoring services are rendered;

(d) Franchise service fees are received from the franchisees in connection with the Group's kindergarten management services which are recognised as revenue upon the delivery of the relevant services.

Income from other services provided by the Group is recognised in the period in which the services are rendered.

Interest income, 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.

Contract liabilities (applicable from 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Share-based payments

The Company 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. Further details of which are given in note 27 to these 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 each reporting period 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 the statement of 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

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.

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 which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China 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.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Foreign currencies

These financial statements are presented in RMB. The functional currency of the Company is Hong Kong dollars ("HK$"). 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 currency. 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 as at the end of each of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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. 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 judgment, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Contractual arrangements

The Group exercises control over Shijiazhuang Institute of Technology, Shijiazhuang Saintach and the tutorial centers (collectively, "Saintach Tutorial Centers"), Hebei Saintach and the kindergartens (collectively, "Saintach Kindergartens") and Zerui Education (the "structured entities") and enjoys economic benefits of the structured entities through a series of contractual arrangements.

The Group considers that it controls the structured entities notwithstanding the fact that it does not hold direct equity interest in the structured entities, as it has power over the financial and operating policies of the structured entities and receives substantially all of the economic benefits from the business activities of the structured entities through the contractual arrangements. Accordingly, the structured entities have been accounted for as subsidiaries during the year.

Current and deferred tax

Significant judgement is required in interpreting the relevant tax rules and regulations 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 that such determination is made. Further details of the current and deferred tax are set out in note 10 to the financial statements.

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 unit 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 unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. As at 31 December 2018, the carrying amount of goodwill was RMB17,121,000 (2017: Nil). Further details are given in note 15 to the financial statements.

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 as at the end of each reporting period. Further details of the property, plant and equipment are set out in note 13 to the financial statements.

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4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of education services and the related management services in the PRC.

For management purposes, the Group is organised into business units based on their services and had three segments including tertiary education service provided by Shijiazhuang Institute of Technology, tutorial center education service provided by Saintach Tutorial Centers and preschool education service provided by Saintach Kindergartens.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is measured consistently with the Group's profit before tax except that finance costs, interest income and other unallocated income and expenses are excluded from such measurement.

Segment assets exclude cash and bank balances, pledged deposits, term deposits, amounts due from related parties and other unallocated head office and corporate assets as these assets are managed on a group basis;

Segment liabilities exclude interest-bearing bank and other borrowings, amounts due to related parties, tax payable and other unallocated head office and corporate liabilities as these assets are managed on a group basis;

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2018	Tertiary education RMB'000	Tutorial center education RMB'000	Preschool education RMB'000	Total RMB'000
Revenue				
Sales to external customers	119,048	49,937	33,010	201,995
Other segment revenue	7,184	47	118	7,349
Total	126,232	49,984	33,128	209,344
Segment results	68,799	13,011	5,229	87,039
Reconciliation				
Finance costs				(2,662)
Interest income				3,241
Unallocated expenses				(17,422)
Profit before tax				70,196
Segment assets	207,595	10,327	4,185	222,107
Reconciliation				
Amounts due from related parties				2,815
Term deposits				162,638
Pledged deposits				105,000
Cash and bank balances				259,491
Unallocated head office and corporate assets				3,932
Total assets				755,983
Segment liabilities	(105,113)	(22,899)	(14,477)	(142,489)
Reconciliation:				
Interest-bearing bank and other borrowings				(13,000)
Tax payable				(2,285)
Unallocated head office and corporate liabilities				(13,304)
Total liabilities				(171,078)
Other segment information:				
Depreciation and amortisation	11,275	271	1,172	12,718
Capital expenditure^	13,266	505	1,172	14,943
Loss on disposal of items of property, plant, and equipment	369	–	2	371

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2017	Tertiary education RMB'000	Tutorial center education RMB'000	Preschool education RMB'000	Total RMB'000
Revenue				
Sales to external customers	94,846	45,971	28,924	169,741
Other segment revenue	7,967	66	1,416	9,449
Total	102,813	46,037	30,340	179,190
Segment results	50,331	7,517	4,801	62,649
Reconciliation				
Finance costs				(3,843)
Interest income				648
Unallocated expenses				(14,031)
Profit before tax				45,423
Segment assets	192,095	4,099	5,421	201,615
Reconciliation				
Amounts due from related parties				1,314
Term deposits				70,000
Cash and bank balances				39,864
Unallocated head office and corporate assets				4,618
Total assets				317,411
Segment liabilities	(81,407)	(25,717)	(14,551)	(121,675)
Reconciliation:				
Interest-bearing bank and other borrowings				(35,106)
Tax payable				(1,849)
Unallocated head office and corporate liabilities				(1,190)
Total liabilities				(159,820)
Other segment information:				
Depreciation and amortisation	11,445	219	1,118	12,782
Capital expenditure^	3,572	257	1,008	4,837
Loss on disposal of items of property, plant, and equipment	233	12	4	249

^: capital expenditure consists of additions of property, plant and equipment, prepaid land lease payments and intangible assets.

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in Mainland China and all of its long-term assets were located in Mainland China. Accordingly, no geographical segment information is presented.

Information about major customers

During the year, no revenue from transaction with a single external customer amounted to 10% or more of the Group's total revenue.

During the year 2017, revenue of approximately RMB18,059,000 was derived from the provision of college operation services to 河北廿一世紀教育投資有限公司 Hebei Lionful Education Investment Co., Ltd. ("Lionful Education"), a related party of the Group. Details of the transaction with Lionful Education are set out in note 33(d)(1) to the financial statements

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Notes	**2018 RMB'000**	2017 RMB'000
Revenue from contracts with customers			
Tertiary education			
Tuition fees		**73,564**	58,795
Boarding fees		**7,928**	5,739
College operation service income	*(a)*	**20,415**	19,836
Others	*(b)*	**17,141**	10,476
		119,048	94,846
Tutorial center education			
Tutoring fees		**49,937**	45,971
Preschool education			
Tuition fees		**29,322**	28,924
Consultation fee		**3,688**	–
		33,010	28,924
		201,995	169,741

Notes:

(a) The college operation service income comprises the service income derived from the provision of college operation services and the provision of accommodation services to the students. Details of the arrangements are set out in note 33(d)(1) to the financial statements; and

(b) Others represent service fees received from certain independent universities in respect of the provision of student recruitment services, income received from the provision of vocational training and examination preparation courses and income derived from granting the right of canteen management.

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5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers

(i) Disaggregated revenue information

	2018 RMB'000
Timing of revenue recognition	
Education related services transferred over time	189,194
Other services recognised at point of time	12,801
	201,995

The Group's contracts with students for college education programmes are normally with duration of 1 year renewed up to total duration of 3 – 5 years depending on the education programmes, while those for boarding fees are normally with duration of 1 year. Tuition fees of preschool education are with duration of 1 month and for the tutorial center, tuition is charged based on the number of tutoring hours to be taken by students and the type of class. Tuition and boarding fees are determined and paid by the students before the start of the school year.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Tuition fees	47,239
Boarding fees	3,807
Others	6,484
	57,530

No revenue recognised during the year relates to performance obligation that was satisfied in prior years.

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5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Revenue from contracts with customers (continued)

(ii) Performance obligations

Education related services

The performance obligations for the provision of education related services are satisfied over time as services are rendered and tuition fees and boarding fees are normally required before rendering the services.

Other services

The performace obligation related to other services are satisfied at point of time upon completion of the related services.

The contracts for education related services are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

An analysis of other income and gains is as follows:

	Note	**2018 RMB'000**	2017 RMB'000
Other income and gains			
Interest income		**3,241**	648
Site use fees	*(a)*	**3,443**	4,636
Sale of education materials and living goods		**2,812**	2,864
Others		**1,094**	1,949
		10,590	10,097

Note:

(a) Amounts represent usage fees received from certain colleges and enterprises in connection with their uses of the school premises and facilities of the Group to organise teaching and training activities.

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6. PROFIT BEFORE TAX

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

	Note	**2018 RMB'000**	2017 RMB'000
Depreciation	*13*	**10,730**	10,813
Recognition of prepaid land lease payments	*14*	**1,758**	1,758
Amortisation of intangible assets*	*16*	**230**	211
Minimum lease payments under operating leases			
– Buildings		**8,462**	8,761
– Others		**674**	551
		9,136	9,312
Employee benefit expense (excluding directors' remuneration *(note (8))*:			
Wages and salaries		**69,340**	65,716
Equity-settled share option expense		**266**	–
Pension scheme contributions (defined contribution scheme)		**8,391**	9,170
		77,997	74,886
Auditor's remuneration		**1,400**	471
Loss on disposal of items of property, plant and equipment		**371**	249

* The amortisation of intangible assets for each of the reporting periods is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings	**1,801**	3,061
Financing consultancy service charges^	**861**	782
	2,662	3,843

^ Financing consultancy service charges represented service charges paid by the Group in respect of certain bank and other borrowings obtained.

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8. DIRECTORS' REMUNERATION

Details of directors' remuneration for the year, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities of the Main Board 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, are as follows:

	2018 RMB'000	2017 RMB'000
Fees	100	–
Other emoluments:		
Salaries, allowances and benefits in kind	612	403
Equity-settled share option expense	143	–
Pension scheme contributions	201	148
	956	551
	1,056	551

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 the consolidated statement of 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. Guo Litian	30	–
Mr. Ma Guoqing*	40	–
Mr. Yao Zhijun	30	–
	100	–

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

* Mr. Ma Guoqing resigned as an independent non-executive Director on 6 March 2019. Mr. Wan Joseph Jason succeeded as the independent non-executive Director with effect from 6 March 2019.

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8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

Year ended 31 December 2018	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Mr. Li Yunong	240	61	–	301
Mr. Liu Zhanjie	123	45	58	226
Ms. Liu Hongwei	97	26	28	151
Mr. Ren Caiyin	80	38	28	146
Ms. Yang Li	72	31	29	132
	612	201	143	956

Year ended 31 December 2017	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Mr. Li Yunong	108	29	–	137
Mr. Liu Zhanjie	61	9	–	70
Ms. Liu Hongwei	99	43	–	142
Mr. Ren Caiyin	93	44	–	137
Ms. Yang Li	42	23	–	65
	403	148	–	551

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

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2017: nil), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2017: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	537	1,051
Pension scheme contributions	199	252
	736	1,303

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

	2018	2017
Nil to HK$1,000,000	3	5

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.

The Company's directly held subsidiary was incorporated in the BVI as an exempted company with limited liability under the BVI Companies Act. 2004 and accordingly is not subject to income tax.

Hong Kong Profits Tax

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.

PRC Corporate Income Tax

Pursuant to the PRC Income Tax Law and the respective regulations, except for the preferential tax rate of 15% available to Xin Tian Di Xian, all of the Group's non-school subsidiaries established in the PRC are subject to the Corporate income tax of 25% during the year.

According to Implementation Regulations, non-public schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. non-public schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. It is stated in the Implementation Regulations that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year and up to the date of this report, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities, the Group's schools which require reasonable returns did not pay Corporate income tax and had enjoyed the preferential Corporate income tax exemption treatments in 2018. Except for the tutorial centers and certain kindergartens, there was no Corporate income tax imposed on Shijiazhuang Institute of Technology and the remaining kindergartens in respect of the education services provided in 2018.

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10. INCOME TAX (CONTINUED)

PRC Corporate Income Tax (continued)

As a result, no income tax expense was recognised for the income from the provision of formal education services for the year ended 31 December 2018 (2017: Nil).

Tutorial centers of the Group which provide non-academic educational services are subject to Corporate income tax at a rate of 25%.

The major components of the Corporate income tax expense for the Group are as follows:

	2018 RMB'000	2017 RMB'000
Current – Mainland China		
Charge for the year	670	385
Underprovision in prior years	106	–
	776	385

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 the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2018 RMB'000	2017 RMB'000
Profit before tax	70,196	45,423
Tax at the statutory tax rate	17,549	11,356
Profit arising from schools not subject to tax	(20,083)	(15,305)
Effect of different tax rates for certain group entities	102	–
Expenses not deductible for tax	324	484
Adjustments in respect of current tax of previous periods	106	–
Tax losses utilised from previous periods	(1,313)	(512)
Tax losses not recognised	4,091	4,362
	776	385

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.

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10. INCOME TAX (CONTINUED)

PRC Corporate Income Tax (continued)

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 (2017: Nil). In the opinion of the directors, the Group's unremitted earnings 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. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB88,303,000 at 31 December 2018 (2017: RMB39,451,000).

As at 31 December 2018, the Group had tax losses arising in Mainland China of RMB12,773,000 (2017: RMB7,540,000) which will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year (2017: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basis earnings per share is based on the profit attributable to ordinary equity holders of the Company and the weighted average number of the ordinary shares of 1,070,547,156 (2017: 840,000,000) in issue during the year.

The weighted average numbers of shares in issue during the years ended 31 December 2018 and 2017 are based on the assumption that 840,000,000 shares were in issue as if the 839,990,000 shares issued by capitalisation of share premium account for allotment and issue to Sainange Holdings Company Limited and Sainray Limited, the then two Shareholders of the Company, were outstanding throughout the entire period presented (note 26 (a)).

No adjustment has been made to the basis earnings per share amount presented for the years ended 31 December 2018 and 2017. There was no dilution effect on the basis earnings per share amount presented in respect of the share option outstanding as at 31 December 2018. And the Group had no potential dilutive ordinary share in issue during 2017.

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 and diluted earnings per share calculation	**69,420**	45,038

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12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (CONTINUED)

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**1,070,547,156**	840,000,000

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2018	Buildings and facilities RMB'000	Leasehold improvements RMB'000	Equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2017 and 1 January 2018:							
Cost	113,144	23,135	29,824	19,111	64	–	185,278
Accumulated depreciation	(6,619)	(16,572)	(23,825)	(15,957)	(49)	–	(63,022)
Net carrying amount	106,525	6,563	5,999	3,154	15	–	122,256
At 1 January 2018, net of accumulated depreciation	106,525	6,563	5,999	3,154	15	–	122,256
Additions	–	8,280	3,607	1,181	–	1,287	14,355
Acquisition of a subsidiary *(note 29)*	–	–	31	7	–	–	38
Disposals	(183)	(7)	(61)	(127)	–	–	(378)
Depreciation provided during the year *(note 6)*	(5,643)	(2,675)	(1,758)	(649)	(5)	–	(10,730)
Transfer	–	409	–	–	–	(409)	–
At 31 December 2018, net of accumulated depreciation	100,699	12,570	7,818	3,566	10	878	125,541
At 31 December 2018:							
Cost	112,887	31,814	32,807	19,018	65	878	197,469
Accumulated depreciation	(12,188)	(19,244)	(24,989)	(15,452)	(55)	–	(71,928)
Net carrying amount	100,699	12,570	7,818	3,566	10	878	125,541

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13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

31 December 2017	Buildings and facilities RMB'000	Leasehold improvements RMB'000	Equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2017:						
Cost	113,192	22,427	27,779	19,017	64	182,479
Accumulated depreciation	(1,166)	(13,434)	(22,851)	(16,056)	(43)	(53,550)
Net carrying amount	112,026	8,993	4,928	2,961	21	128,929
At 1 January 2017, net of accumulated depreciation	112,026	8,993	4,928	2,961	21	128,929
Additions	108	708	2,707	866	–	4,389
Disposals	(8)	–	(123)	(118)	–	(249)
Depreciation provided during the year *(note 6)*	(5,601)	(3,138)	(1,513)	(555)	(6)	(10,813)
At 31 December 2017, net of accumulated depreciation	106,525	6,563	5,999	3,154	15	122,256
At 31 December 2017:						
Cost	113,144	23,135	29,824	19,111	64	185,278
Accumulated depreciation	(6,619)	(16,572)	(23,825)	(15,957)	(49)	(63,022)
Net carrying amount	106,525	6,563	5,999	3,154	15	122,256

14. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at beginning of year	**62,099**	63,857
Recognised during the year *(note 6)*	**(1,758)**	(1,758)
Carrying amount at the end of year	**60,341**	62,099
Current portion included in prepayments, other receivables and other assets *(note 19)*	**(1,758)**	(1,758)
Non-current portion	**58,583**	60,341

These pieces of leasehold lands are located in Mainland China and are held under long term leases.

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15. GOODWILL

	2018 RMB'000
Cost:	
At 1 January 2018	–
Acquisition of a subsidiary *(note 29)*	**17,121**
Cost and net carrying amount at 31 December 2018	**17,121**

Impairment testing of goodwill

Goodwill acquired through business combination is in connection with Xin Tian Di Xian, which is regarded as a cash-generating unit for impairment testing.

The recoverable amount of the above cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 20%. The growth rate used to extrapolate the cash flows of Xin Tian Di Xian beyond the five-year period is 3%, which is the same as the long term average growth rate of the industry.

In the opinion of the Company's directors, a decrease in the growth rate by 0.5% to 2.5% would cause the carrying amount of the cash-generating unit to exceed its recoverable amount by approximately RMB84,000 to RMB17,037,000, and any reasonably possible change in the other key assumptions on which the recoverable amount is based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

Assumptions were used in the value in use calculation of Xin Tian Di Xian 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 sales amounts – The budgeted sales amounts are based on the historical data and management's expectation on the future market.

Budgeted operating expenses – The bases used to determine the values assigned are cost of services provided and other operating expenses. The values assigned to the key assumptions reflect past experience and management's commitment to maintain its operating expenses at an acceptance level.

Discount rate – The discount rate reflects specific risks relating to the relevant unit, which is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain publicly listed companies conducting business in the industry.

The values assigned to the key assumptions on market development of the cash-generating unit and the discount rate are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Computer softwares RMB'000	Other intangible assets RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	1,110	–	1,110
Additions	588	–	588
Amortisation provided during the year *(note 6)*	(230)	–	(230)
Acquisition of a subsidiary *(note 29)*	–	1,116	1,116
At 31 December 2018, net of accumulated amortisation	1,468	1,116	2,584
At 31 December 2018:			
Cost	2,669	1,116	3,785
Accumulated amortisation	(1,201)	–	(1,201)
Net carrying amount	1,468	1,116	2,584

	Computer softwares RMB'000
31 December 2017	
Cost at 1 January 2017, net of accumulated amortisation	873
Additions	448
Amortisation provided during the year *(note 6)*	(211)
At 31 December 2017, net of accumulated amortisation	1,110
At 31 December 2017:	
Cost	2,081
Accumulated amortisation	(971)
Net carrying amount	1,110

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17. CONTRACT COSTS

Contract costs capitalised as at 31 December 2018 relate to the incremental commission fees for successful referral of students entering into contracts for the tuition services. Contract costs are recognised as part of selling expenses in the consolidated statement of profit or loss and other comprehensive income in the period in which revenue from the related tuition services recognised. The amount of capitalised costs recognised in profit or loss during the year ended 31 December 2018 was RMB2,892,000. There was no impairment in relation to the costs capitalised as at 31 December 2018.

The contract costs are amortised over the duration of education programmes ranging from 1 to 3 years.

18. TRADE RECEIVABLES

	2018 RMB'000	2017 RMB'000
Tuition receivables	**1,885**	1,179

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

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction date and net of provisions, is as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**1,885**	1,179

Trade receivables represented amounts due from certain of the Group's college and kindergarten students.

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18. TRADE RECEIVABLES (CONTINUED)

Impairment under IFRS 9 for the year ended 31 December 2018

The Group applies the simplified approach to provide for the expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group considered that the trade receivables overdue over one year from students who are not dropped out from schools are not default as the tuition fees and boarding fees would be fully received upon the graduation of the students by reference to past experience.

Impairment under IAS 39 for the year ended 31 December 2017

The individually impaired trade receivables as at 31 December 2017 related to students that were in financial difficulties or were in default in payments and no receivable was expected to be recovered.

None of the above trade receivables was either past due or impaired. The receivables had no recent history of default.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments	**8,627**	6,909
Deposits	**3,352**	7,251
Other receivables	**3,925**	1,121
Listing expenses	**–**	4,308
Current portion of prepaid land lease payments *(note 14)*	**1,758**	1,758
	17,662	21,347

None of the above assets was either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default. When impairment analysis is performed at each reporting date, expected credit losses are estimated by applying a loss rate with reference to the historical loss record of the Group. During the current year, the Group estimated that the expected loss rate for the prepayments, other receivables and other assets is nil.

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20. CASH AND BANK BALANCES, TERM DEPOSITS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**259,491**	39,864
Pledged deposits	**105,000**	–
Term deposits	**162,638**	70,000
	527,129	109,864
Less: Pledged deposits for bank facilities	**(105,000)**	–
Term deposits with original maturity over three months	**(162,638)**	(70,000)
	259,491	39,864
Denominated in:		
RMB	**275,663**	108,729
HKD	**31,586**	–
US dollars (US$)	**219,880**	1,135
Cash and cash balances	**527,129**	109,864

As at 31 December 2018, the Group's cash and bank balances,term deposits and pledged deposits denominated in RMB amounted to RMB275,663,000 (2017: RMB108,729,000). The RMB is not freely convertible into other currencies, however, under the PRC 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. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances, term deposits and pledged deposits are deposited with creditworthy banks with no recent history of default.

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21. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Salary and welfare payables	24,158	31,196
Miscellaneous advances from students*	21,647	14,870
Other tax payables	3,775	3,804
Payables for purchases of property, plant and equipment	926	1,076
Deposits	3,046	3,001
Interest payables	27	169
Accrued listing expenses	4,621	637
Scholarships	1,946	241
Other payables	15,702	9,271
Remaining consideration payable for acquisition of a subsidiary *(note 29)*	7,360	–
Current portion of deferred rental obligations	64	289
	83,272	64,554

* The balances mainly represented miscellaneous advances received from students for purchasing uniforms and textbooks on their behalf.

The above balances are unsecured and non-interest bearing. The carrying amount of other payables and accruals as at the end of each reporting period approximated to their fair values due to their short term maturities.

22. CONTRACT LIABILITIES/DEFERRED REVENUE

Contract liabilities

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Tuition fees	55,861	47,239
Boarding fees	6,725	3,807
Others	9,051	6,484
Total contract liabilities	71,637	57,530

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22. CONTRACT LIABILITIES/DEFERRED REVENUE (CONTINUED)

Deferred revenue

	31 December 2017 RMB'000
Tuition fees	47,239
Boarding fees	3,807
Others	6,484
Total contract liabilities	57,530

Contract liabilities include short-term advances received from students in relation to the proportionate service not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year or each tutorial program. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Short term bank loan – unsecured	8.27	2019	13,000	–	–	–
Current portion of long term bank loan – secured	–	–	–	5.44	2018	15,000
Current portion of long term bank loan – unsecured	–	–	–	10.93	2018	13,000
Current portion of long term other borrowings – secured	–	–	–	5.50–6.00	2018	3,800
Current portion of long term other borrowing – unsecured	–	–	–	8.05	2018	2,585
			13,000			34,385
Non-current						
Other borrowing – unsecured	–	–	–	8.05	2019	721
			13,000			35,106

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23. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**13,000**	28,000
Other borrowings repayable:		
Within one year or on demand	**–**	6,385
In the second year	**–**	721
	–	7,106
	13,000	35,106

Other borrowings of the Group represented borrowings obtained from independent financial institutions.

Details of guarantees and/or securities provided by the Group and its related parties or third parties in connection with certain bank and other borrowings obtained by the Group during the year are as follows:

(i) As at 31 December 2017, a bank borrowing of RMB15,000,000 was guaranteed by an independent financing guarantee company as well as jointly and severally guaranteed by Zerui Education.

(ii) As at 31 December 2017, an other borrowing of RMB2,400,000 was secured by properties owned by certain employees of the Group.

(iii) As at 31 December 2017, an other borrowing of RMB1,400,000 was secured by a property owned by a director of the Group.

(iv) As at 31 December 2018, a bank borrowing of RMB13,000,000 was guaranteed by an independent financing guarantee company.

24. DEFERRED RENTAL OBLIGATIONS

	2018 RMB'000	2017 RMB'000
Deferred rental obligations	**781**	1,070
Current portion included in other payables and accruals *(note 21)*	**(64)**	(289)
	717	781

Deferred rental obligations arise from operating lease arrangements in respect of certain properties leased by the Group.

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25. DEFERRED TAX LIABILITIES

	Fair value adjustments arising from acquisition of a subsidiary RMB'000
At 1 January 2018	–
Acquisition of a subsidiary *(note 29)*	167
Gross deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2018	167

26. SHARE CAPITAL

	2018 RMB'000	2017 RMB'000
Authorised:		
3,000,000,000 ordinary shares of HK$0.01 each as at 31 December 2018 (2017: 39,000,000 ordinary shares)	**25,293**	326
Issued and fully paid:		
1,224,798,000 (2017: 10,000)	**10,323**	–*

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 31 December 2017 and 1 January 2018	10,000	–*
Capitalisation issue *(note (a))*	839,990,000	7,082
Issuance of ordinary shares upon listing *(note (b))*	360,000,000	3,035
Exercise of over-allotment options *(note (c))*	36,000,000	304
Share repurchased *(note (d))*	(11,202,000)	(98)
At 31 December 2018	1,224,798,000	10,323

* Less than RMB1,000

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26. SHARE CAPITAL (CONTINUED)

Notes:

(a) 839,990,000 shares were allotted and issued to the two Shareholders of the Company, Sainange Holdings Company Limited and Sainray Limited, credited as fully paid at par value, immediately prior to the listing of the Company's shares on 29 May 2018 by way of capitalisation of the sum of HK$8,400,000 (approximately RMB7,082,000) standing to the credit of the share premium account of the Company.

(b) On 29 May 2018, in connection with the Company's initial public offering, 360,000,000 new ordinary shares of the Company of HK$0.01 each were issued at a price of HK$1.13 per share.

(c) On 17 June 2018, the Company issued additional 36,000,000 shares at the price of HK$1.13 per share as a result of the exercise of the over-allotment options by the underwriters.

(d) The Company repurchased 15,459,000 of its shares on the Stock Exchange for a total consideration of HK$14,980,000 (equivalent to RMB13,125,000) which was paid wholly out of share premium account. Up to 31 December 2018, 11,202,000 of the repurchased shares were cancelled and the remaining 4,257,000 repurchased shares, which were presented as treasury shares amounting to RMB37,000, were cancelled on 22 February 2019.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 27 to the financial statements.

27. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 11 October 2018 and, unless otherwise cancelled or amended, will remain in force for 5 years from that date.

Share options granted to a director or chief executive of the Company are subject to approval in advance by the independent non-executive directors.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at Shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Weighted average exercise price HK$ per share	Number of options '000
At 1 January 2018	–	–
Granted during the year	0.964	5,190
Exercised during the year	–	–
At 31 December 2018	0.964	5,190

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27. SHARE OPTION SCHEME (CONTINUED)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

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Number of options '000	Exercise price HK$ per share	Exercise period
1,557	0.964	11 October 2019 to 10 October 2023
1,557	0.964	11 October 2020 to 10 October 2023
2,076	0.964	11 October 2021 to 10 October 2023
5,190		

The fair value of the share options granted during the year was HK$2,330,000 (HK$0.449 weighted average each), of which the Group recognised a share option expense of HK$302,000 (equivalent to approximately RMB266,000) during the year ended 31 December 2018.

The fair value of equity-settled share options granted during the year, was estimated as at the date of grant using the popular binomial tree model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2018
Dividend yield (%)	–
Volatility (%)	64.49
Risk-free interest rate (%)	2.53
Exit rate (%)	0.91
Exercise multiple	2.80
Expected life of options (year)	5
Weighted average share price (HK$ per share)	0.88

The 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.

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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 pages 120 to 121 of the financial statements.

Share premium

Share premium can be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company would be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Capital reserve

The capital reserve of the Group represents the capital contribution from the then investors or school sponsors of the PRC Operating Entities.

Capital redemption reserve

Capital redemption reserve arises from repurchase of its own ordinary shares on the Stock Exchange. All the repurchased shares are cancelled by the Company upon such repurchase and accordingly the issued share capital of the Company are reduced by the nominal value of these shares. The premium paid on the repurchase is charged to the share premium.

Statutory surplus reserve

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 subsidiaries in the PRC. These reserves include (i) the 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 can 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.

Other reserve

Other reserve mainly represents the difference between the cost of acquisition and the non-controlling interests acquired in the case of acquisition of additional non-controlling interests of subsidiaries.

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29. ACQUISITION OF A SUBSIDIARY

On 29 December 2018, Sheng Dao Xiang Cheng, a subsidiary of the Group, acquired a 100% equity interest of Xin Tian Di Xian for a total consideration of RMB20 million and Xin Tian Di Xian was accounted for as a subsidiary of the Group.

The fair values of the identifiable assets and liabilities of Xin Tian Di Xian as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	*13*	38
Other intangible assets	*16*	1,116
Prepayments, other receivables and other assets		165
Cash and bank balances		2,208
Other payables and accruals		(470)
Tax payable		(11)
Deferred tax liability	*25*	(167)
Total identifiable net assets at fair value		2,879
Goodwill on acquisition	*15*	17,121
Total purchase consideration		20,000
– Cash paid		12,640
– Cash payable		7,360

None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration paid	(12,640)
Cash and bank balances acquired	2,208
Net outflow of cash and cash balances included in cash flows from investing activities	(10,432)

As the above transaction occurred at a time approaching the year end, its contribution to the Group's revenue and net profits was insignificant since the acquisition.

Had the acquisition taken place at the beginning of the year, revenue and the net profit of the Group would have been approximately RMB206 million and RMB71 million, respectively.

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30. NOTE TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in liabilities arising from financing activities

2018	Interest payables included in other payables and accruals RMB'000	Interest-bearing bank and other borrowings RMB'000	Accrued listing expenses included in other payables and accruals RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2018	169	35,106	160	35,435
Changes from financing cash flows	(2,805)	(22,106)	(13,713)	(38,624)
Interest expense	2,663	–	–	2,663
Others	–	–	16,053	16,053
At 31 December 2018	27	13,000	2,500	15,527

2017	Interest payables included in other payables and accruals RMB'000	Interest-bearing bank and other borrowings RMB'000	Accrued listing expenses included in other payables and accruals RMB'000	Total liabilities from financing activities RMB'000
At 1 January 2017	236	34,322	55	34,613
Changes from financing cash flows	(3,910)	784	(3,181)	(6,307)
Interest expense	3,843	–	–	3,843
Others	–	–	3,286	3,286
At 31 December 2017	169	35,106	160	35,435

31. CONTINGENT LIABILITIES

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

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32. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 6 months to 15 years. At 31 December 2018, 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	**7,874**	4,521
In the second to fifth years, inclusive	**14,363**	8,399
Beyond five years	**4,367**	5,196
	26,604	18,116

33. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Name and relationship of related parties

Name	**Relationship**
Mr. Li Yunong	Chairman, one of the Controlling Shareholders of the Group, and son-in-law of Ms. Luo Xinlan
Ms. Luo Xinlan	One of the Controlling Shareholders of the Group, and mother-in-law of Mr. Li Yunong
Lionful Investment Holding Co., Ltd. ("Lionful Investment Holding")	A company controlled by the Controlling Shareholders
Lionful Education	A company controlled by the Controlling Shareholders
河北安信聯行物業服務有限公司石家莊分公司 Hebei Ansince Property Management Co., Ltd. Shijiazhuang Branch* ("Hebei Ansince Shijiazhuang Branch")	A company controlled by Mr. Li Yunong

* The English names of the companies stated above in this note represent the best effort made by the Directors to translate the Chinese names as those companies have not been registered with any official English names.

(b) Outstanding balances with a related party

Amounts due from a related party

	2018 RMB'000	2017 RMB'000
Lionful Education	**2,815**	1,314

As at 31 December 2018 and 2017, the amount due from Lionful Education represented service fee receivable arising from the provision of college operation services. In the opinion of the Directors, the amount due is trade in nature and would be settled according to the term agreed mutually in the normal course of business.

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33. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(c) Transactions with related parties

Purchases of services and leases of assets from related parties

	Notes	2018 RMB'000	2017 RMB'000
Lionful Education	*(i)*	**5,500**	2,750
Hebei Ansince Shijiazhuang Branch	*(ii)*	**624**	494
		6,124	3,244

Notes:

(i) A lease agreement was entered into between the Group and Lionful Education on 4 May 2018, pursuant to which properties owned by Lionful Education that were used as the Group's library, student dormitory, infirmary and a training center were leased at an annual rate of RMB5,500,000. The lease agreement was cancellable and, hence, there was no operating lease commitment under this lease agreement as at 31 December 2018.

During the year ended 31 December 2018, the Group prepaid the rental of RMB5,500,000 for the second year and amortised the prepaid rent on a straight-line basis. As at 31 December 2018, the remaining prepaid rent was RMB2,750,000.

(ii) Details of the property rentals paid to and fee paid for property management services provided by Hebei Ansince Shijiazhuang Branch are set out as follows:

	2018 RMB'000	2017 RMB'000
Property rentals	**354**	340
Property management services	**270**	154
	624	494

Properties leased from Hebei Ansince Shijiazhuang Branch were used as premises of the Group's kindergartens. Rental charges and service charges were based on prices mutually agreed between the Group and Hebei Ansince Shijiazhuang Branch.

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33. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(d) Others

(1) During the year, the Group has provided college operation services to Lionful Education in connection with the operation of the West Campus of 石家莊鐵道大學四方學院 (Shijiazhuang Tiedao University Sifang College) ("Sifang"). Lionful Education has been jointly operating the West Campus of Sifang College with 石家莊鐵道大學 ("ShijiazhuangTiedao University") (Tiedao University").

Details of the college operation service income from Lionful Education for each of the year are as follows:

	2018 RMB'000	2017 RMB'000
College operation service income	**18,633**	18,059

Other than the college operation service stated above, under the relevant agreements, Shijiazhuang Institute of Technology is responsible for providing the accommodation services to the students enrolled by the West Campus of Sifang College. Accommodation service fees are collected directly from the students and are recognised as income for the year as follows:

	2018 RMB'000	2017 RMB'000
Student accommodation service income^^	**1,782**	1,777

^^ included as part of the college operation service income of the Group as disclosed in note 5 to the financial statements.

(2) During the year, certain trademarks owned by Lionful Investment Holding were used by the Group free of charge.

(e) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**970**	709
Pension scheme contributions	**324**	244
Equity-settled share option expense	**221**	–
	1,515	953

Details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

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34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at amortised cost RMB'000
Trade receivables	1,885
Amounts due from related parties	2,815
Financial assets included in prepayments, other receivables and other assets	7,276
Cash and bank balances	259,491
Pledged deposits	105,000
Term deposits	162,638
	539,105

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	47,653
Interest-bearing bank and other borrowings	13,000
	60,653

2017

Financial assets

	Loans and receivables RMB'000
Trade receivables	1,179
Amounts due from related parties	1,314
Financial assets included in prepayments, other receivables and other assets	8,372
Term deposits	70,000
Cash and bank balances	39,864
	120,729

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34. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	29,265
Interest-bearing bank and other borrowings	35,106
	64,371

35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, term deposits, financial assets included in prepayments, other receivables and other assets, trade receivables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current financial liabilities are follows:

	2018 Carrying amounts RMB'000	**2018 Fair values RMB'000**	2017 Carrying amounts RMB'000	2017 Fair values RMB'000
Interest-bearing bank and other borrowings – non current	–	–	751	751

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 fair values of the non-current interest-bearing bank and other borrowings 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 interest-bearing bank and other borrowings as at 31 December 2018 and 2017 was assessed to be insignificant.

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35. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

As at 31 December 2018

	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
Interest-bearing bank and other borrowings	–	13,000	–	13,000

As at 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
Interest-bearing bank and other borrowings	–	35,106	–	35,106

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

The Group did not have any financial assets measured at fair value at the end of the reporting period.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank and other borrowings and cash and bank balances. The Group has various other financial assets and liabilities such as amounts due from related parties, trade receivables, deposits and other receivables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

As at 31 December 2018, the Group's borrowing bore interest at a fixed rate. As at 31 December 2017, approximately 20% of the Group's borrowings bore floating rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

Year ended 31 December 2017	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax and equity RMB'000
RMB	50	140
RMB	(50)	(140)

In the opinion of the Directors, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure as at the end of each of the year did not reflect the exposure during the year.

Credit risk

It is the Group's policy that all schools which the Group has cooperation with and students who wish to receive the Group's services on credit terms are subject to credit verification procedures. In addition, receivable balances are monitoring on an ongoing basis and the Group's exposure to bad debt is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, amounts due from related parties, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group only provides services with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty or by service nature. There are no significant concentrations of credit risk regarding the trade receivables of the Group.

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2018				
	On demand RMB'000	**Within 1 year RMB'000**	**1 to 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Financial liabilities included in other payables and accruals	**–**	**47,653**	**–**	**47,653**	**47,653**
Interest-bearing bank and other borrowings	**–**	**13,096**	**–**	**13,096**	**13,096**
	–	**60,749**	**–**	**60,749**	**60,749**

	As at 31 December 2017				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Financial liabilities included in other payables and accruals	–	29,265	–	29,265	29,265
Interest-bearing bank and other borrowings	–	35,410	750	36,160	35,106
	–	64,675	750	65,425	64,371

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36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business.

The Directors review the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the raising of new debts as well as the redemption of the existing debt. The Group's overall strategy remained unchanged during the years ended 31 December 2018 and 2017.

The Group monitors capital using a debt-to-asset ratio which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of each reporting period were as follows:

	2018 RMB'000	2017 RMB'000
Total liabilities	**171,078**	159,820
Total assets	**755,983**	317,411
Debt-to-asset ratio	**23%**	50%

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37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Interest in subsidiaries	266	–
CURRENT ASSETS		
Due from subsidiaries	98,977	–
Prepayments, other receivables and other assets	929	–
Term deposits	87,638	–
Cash and bank balances	162,863	208
Total current assets	350,407	208
Total assets	350,673	208
CURRENT LIABILITY		
Amount due to a related party	960	916
Total current liabilities	960	916
NET CURRENT ASSETS	349,447	(708)
TOTAL ASSETS LESS CURRENT LIABILITIES	349,713	(708)
Net assets	349,713	(708)
EQUITY		
Share capital	10,323	–
Treasury shares	(37)	–
Reserves (note)	339,427	(708)
	349,713	(708)

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37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total reserves RMB'000
At 1 January 2017	–	–	–	(10)	–	(10)
Loss for the year	–	–	–	(723)	–	(723)
Other comprehensive income for the year:		–				
Exchange differences on translation of foreign operations	–	–	–	–	25	25
Total comprehensive income for the year	–	–	–	(723)	25	(698)
At 31 December 2017 and 1 January 2018	–	–	–	(733)	25	(708)
Loss for the year	–	–	–	(6,498)	–	(6,498)
Other comprehensive income for the year:		–				
Exchange differences on translation of foreign operations	–	–	–	–	26,048	26,048
Total comprehensive income for the year	–	–	–	(6,498)	26,048	19,550
Capitalisation issue of shares	(7,082)	–	–	–	–	(7,082)
Issue of shares	363,696	–	–	–	–	363,696
Share issue expenses	(23,305)	–	–	–	–	(23,305)
Share repurchased	(12,990)	98	–	(98)	–	(12,990)
Recognition of share-based payment expenses	–	–	266	–	–	266
At 31 December 2018	320,319	98	266	(7,329)	26,073	339,427

38. EVENTS AFTER THE REPORTING PERIOD

In addition to the subsequent events disclosed in notes 8 and 26 to the financial statements, pursuant to the Company's announcement dated 28 February 2019, the Group proposed to acquire 2% equity interest of Beijing Ying Yu New Media Interaction Technology Co., Ltd. ("Beijing Ying Yu") for a consideration of RMB2 million. Beijing Ying Yu is engaged in the development and consultancy of the technology and corporate management services.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2019.

XV. Definitions

"Board"	the board of Directors of the Company
"Business Cooperation Agreement"	the business cooperation agreement entered into among Sheng Dao Xiang Cheng, each of the PRC Operating Entities, Ms. Luo Xinlan and Mr. Li Yunong dated 17 October 2017
"Company" or "21st Century Education"	China 21st Century Education Group Limited, an exempted company incorporated in the Cayman Islands with limited liability on 20 September 2016, of which 88.96% and 11.04% owned by Sainange Holdings Company Limited and Sainray Limited, respectively. Since their respective incorporation date and as of the date of this annual report, Sainange Holdings Company Limited was wholly-owned by Mr. Li Yunong and Sainray Limited was wholly-owned by Ms. Luo Xinlan
"Controlling Shareholder(s)"	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Mr. Li Yunong, Ms. Luo Xinlan, Sainange Holdings Company Limited and Sainray Limited
"Director(s)"	the director(s) of the Company
"Directors' Powers of Attorney"	the school director's power of attorney executed by each of the directors of Shijiazhuang Institute of Technology, Saintach Tutorial Schools and Saintach Kindergartens in favor of Sheng Dao Xiang Cheng dated 17 October 2017
"Education Department of Hebei Province"	An integral department of the provincial government, which is responsible for education business in Hebei Province
"Equity Pledge Agreements"	the equity pledge agreements dated 17 October 2017, entered into (i) among Sheng Dao Xiang Cheng, Mr. Li Yunong, Ms. Luo Xinlan and Zerui Education, in relation to the pledge of equity interest in Zerui Education; (ii) among Sheng Dao Xiang Cheng, Mr. Li Yunong, Zerui Education and Hebei Saintach, in relation to the pledge of equity interest in Hebei Saintach, and (iii) among Sheng Dao Xiang Cheng, Zerui Education and Shijiazhuang Saintach, in relation to the pledge of equity interest in Shijiazhuang Saintach
"Exclusive Call Option Agreements"	the exclusive call option agreements dated 17 October 2017, entered into (i) among Sheng Dao Xiang Cheng, Mr. Li Yunong, Hebei Saintach, Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School, in relation to the exclusive call option of the school sponsor's interest in Fukang Kindergarten, Tianshan Kindergarten, Lidu Kindergarten and Qiaoxi Tutorial School; and (ii) among Sheng Dao Xiang Cheng, Mr. Li Yunong, Ms. Luo Xinlan and the PRC Operating Entities (excluding Qiaoxi Tutorial School), in relation to the exclusive call option of the equity interest in Zerui Education, Hebei Saintach and Shijiazhuang Saintach
"Exclusive Service Agreement"	the exclusive technical service and management consultancy agreement entered into by and among Sheng Dao Xiang Cheng and the PRC Operating Entities dated 17 October 2017

"Foreign Investment Law"	the Foreign Investment Law of the PRC* (中華人民共和國外商投資法) promulgated by the 13th National People's Congress on 15 March 2019, which will become effective on 1 January 2020
"Frost & Sullivan Report"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party. "Frost & Sullivan Report" refers to an independent market research report commissioned by the Company on the PRC private education market and prepared by Frost & Sullivan, as referred to in "Industry Overview" in the Prospectus
"government" or "State"	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
"Group" or "we"	the Company, its subsidiaries and the PRC Operating Entities from time to time
"Hebei Saintach"	Hebei Saintach Education and Technology Co., Ltd.* (河北新天際教育科技有限公司), a limited liability company established under the laws of the PRC on 17 September 2002, one of the Company's PRC Operating Entities
"Institute of Psychology, Chinese Academy of Sciences"	A professional institute under Chinese Academy of Sciences. As an international research institution, which is influential to the psychological science development in the PRC, the institute serves for psychological science think tank for national science innovation and urban development, in order to explore human wisdom and analyze mentality and behavior
"Integrated Area"	also known as the Beijing, Tianjin and Hebei Province Integrated Area. The concept of this area was created pursuant to a national strategic initiative to promote the region's economic development
"Listing Date"	29 May 2018, being the date of listing of Shares on the Main Board of the Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Outline of the Plan for Coordinated Development for the Beijing-Tianjin-Hebei Region"	The outline document considered and approved by the Political Bureau of the Central Committee on 30 April 2015, which pointed out that driving coordinated development of Beijing-Tianjin-Hebei is a major national strategy by centering on the orderly dispersion of Beijing's non-capital functions, and initiate breakthroughs in such key areas as traffic integration, environmental protection and industrial upgrading
"Pearl River Delta City Cluster"	Pearl River Delta City Cluster comprises of 14 cities, which is one of the energetic economic zones in Asia Pacific region. As an advanced manufacture industry base and modern service industry base, it acts as the external gateway for southern areas and is the principal area for the PRC to take part in economic globalization

"PRC"	the People's Republic of China
"PRC Legal Advisor"	Jingtian & Gongcheng, the advisor of the Company as to PRC laws
"PRC Operating Entities"	Shijiazhuang Saintach, Hebei Saintach, Shijiazhuang Institute of Technology, Saintach Tutotorial Schools and Saintach Kindergartens
"private school(s)"	schools organised by social organisations or individuals outside the national institutions using non-state financial funds
"Prospectus"	the prospectus issued by the Company on the initial public offering and listing dated 15 May 2018
"public schools"	schools administered by local, provincial or national education authorities
"Registered Shareholders"	the Shareholders of Zerui Education, namely Mr. Li Yunong and Ms. Luo Xinlan
"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC
"Sainange Investment"	Sainange Investment Limited, a company incorporated under the laws of the British Virgin Islands on 19 October 2016 for investment holding purposes, which has been wholly-owned by the Company
"Saintach Kindergartens"	Blue Crystal Kindergarten, Fukang Kindergarten, Jianhua Kindergarten, Lidu Kindergarten, Tianshan Kindergarten, Qinghui Kindergarten, Zhengding Kindergarten and Fumenli Kindergarten
"Saintach Tutorial Centers"	Tutorial centers in multiple operating locations which are organized into different Saintach Tutorial Schools
"Saintach Tutorial Schools"	Qiaoxi Tutorial School, Chang'an Tutorial School, Donggang Tutorial School, Zhicheng Tutorial School, High-tech Zone Tutorial School and Huixuan Tutorial School
"school sponsor"	the individual(s) or entity(ies) that funds or holds interests in an educational institution
"School Sponsors' and Directors' Rights Entrustment Agreement"	the school sponsors' and directors' rights entrustment agreement entered into among the PRC Operating Entities and the respective directors of Shijiazhuang Institute of Technology, Saintach Kindergartens and Saintach Tutorial Schools, Mr. Li Yunong and Sheng Dao Xiang Cheng dated 17 October 2017
"School Sponsors' Powers of Attorney"	the school sponsor's power of attorney executed by each of Zerui Education, Hebei Saintach, Shijiazhuang Saintach and Mr. Li Yunong, in favor of Sheng Dao Xiang Cheng dated 17 October 2017
"school year"	the school year for all of our schools, which generally starts on 1 September of each calendar year and ends on 30 June of the next calendar year

"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Power of Attorney"	the power of attorney executed by each of Zerui Education, Mr. Li Yunong and Ms. Luo Xinlan, in favor of Sheng Dao Xiang Cheng dated 17 October 2017
"Shareholders' Rights Entrustment Agreement"	the Shareholders' rights entrustment agreement entered into among Zerui Education, Mr. Li Yunong, Ms. Luo Xinlan, Hebei Saintach, Shijiazhuang Saintach and Sheng Dao Xiang Cheng dated 17 October 2017
"Sheng Dao Xiang Cheng"	Sheng Dao Xiang Cheng Education and Technology Co., Ltd.* (河北晟道象成教育科技有限公司), a wholly-foreign owned enterprise established under the laws of PRC on 14 December 2016 and a wholly-owned subsidiary of the Company
"Shijiazhuang Institute of Technology"	Shijiazhuang Institute of Technology* (石家莊理工職業學院), a junior college established under the laws of the PRC on 1 July 2003 of which school sponsors' interest is wholly-owned by Zerui Education as of the date of this annual report and one of the PRC Operating Entities
"Shijiazhuang Saintach"	Shijiazhuang Saintach Education and Technology Co., Ltd.* (石家莊新天際教育科技有限公司), a limited liability company established under the laws of the PRC on 13 July 2011, wholly-owned by Zerui Education as of the date of this annual report and one of the PRC Operating Entities
"Sifang College"	Shijiazhuang Tiedao University Sifang College (石家莊鐵道大學四方學院)
"Spouse Undertakings"	the spouse undertakings executed by the spouse of Mr. Li Yunong and the spouse of Ms. Luo Xinlan dated 17 October 2017, respectively
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, the Business Cooperation Agreement, the Exclusive Service Agreement, the Exclusive Call Option Agreements, the Equity Pledge Agreements, the School Sponsors' and Directors' Rights Entrustment Agreement, the School Sponsors' Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Power of Attorney, the Shareholders' Rights Entrustment Agreement and the Spouse Undertakings, further details of which are set out in "Structured Contracts" in the Prospectus
"tutoring hour(s)"	the unit for measuring tutoring time delivered to students, typically represents 60 minutes in lengths for secondary school students and 40 minutes in lengths for primary school students

"Zerui Education"	Hebei Zerui Education Technology Co., Ltd.* (河北澤瑞教育科技有限責任公司), a limited liability company established under the laws of the PRC on 12 July 2017, owned as to 80.625% by Mr. Li Yunong and 19.375% by Ms. Luo Xinlan as of the date of this annual report, and one of the PRC Operating Entities
"%"	per cent.

Certain amounts and percentage figures included herein have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names of entities or enterprises established in the PRC and their English translations marked with "*", the Chinese names shall prevail.

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