China Kepei Education Group Limited
中國科培教育集團有限公司

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

Stock Code 股份代號: 1890

2018 ANNUAL REPORT 年度報告

Contents

Company Profile

China Kepei Education Group Limited (the "Company"), together with its subsidiaries (collectively refers to as the "Group", "we", "our" or "us"), is a leading provider of private higher education in South China focusing on profession-oriented education. As of 30 September 2018, we had an aggregate of 45,118 students enrolled at the schools we operated, namely, Guangdong Polytechnic College and Zhaoqing Science and Technology Secondary Vocational School* (肇慶市科技中等職業學校) ("Zhaoqing School"), both of which are located in Zhaoqing City, Guangdong Province.

We are committed to providing students with high-quality profession-oriented education and help them meet the growing and changing market demand. We focus on engineering majors in order to better capture local employment demands, balanced with economics, management, education and art majors to offer well-rounded education services. We endeavor to provide students with various profession-oriented training and internship opportunities in collaboration with research institutions and enterprises, through which we foster practical skills and market competitiveness of our students. We have also built our reputation on the high initial employment rate of our graduates. For the 2017/2018 school year**, Guangdong Polytechnic College had 1,023 graduates from its undergraduate programs, achieving an initial employment rate of 96.8%.

Through over 18 years of operating private higher education in South China, we believe that we have established a strong reputation, which helps us attract high-quality students and teachers and pave the way for our success. We intend to maintain and strengthen our market position in the private higher education industry in China.

* for identification purpose only

** a school year generally starts from September 1 of each calendar year to August 31 of the following calendar year

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ye Nianqiao *(Chairman and Chief Executive Officer)*
Dr. Zhang Xiangwei
Mr. Zha Donghui
Ms. Li Yan
Mr. Ye Xun

Non-executive Director

Mr. Wang Chuanwu

Independent Non-executive Directors

Dr. Xu Ming
Dr. Deng Feiqi
Dr. Li Xiaolu

AUDIT COMMITTEE

Dr. Xu Ming *(Chairman)*
Mr. Wang Chuanwu
Dr. Deng Feiqi

REMUNERATION COMMITTEE

Dr. Deng Feiqi *(Chairman)*
Mr. Zha Donghui
Dr. Li Xiaolu

NOMINATION COMMITTEE

Mr. Ye Nianqiao *(Chairman)*
Dr. Deng Feiqi
Dr. Li Xiaolu

JOINT COMPANY SECRETARIES

Ms. Li Yan
Ms. Leung Suet Wing

AUTHORIZED REPRESENTATIVES

Mr. Ye Nianqiao
Ms. Leung Suet Wing

REGISTERED OFFICE

Maples Corporate Services Limited
P.O. Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Gaoyao District
Zhaoqing City
Guangdong Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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1 Matheson Street
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Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

Corporate Information

HONG KONG SHARE REGISTRAR

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183 Queen's Road East
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LEGAL ADVISORS

As to Hong Kong law:
Fangda Partners
26/F, One Exchange Square
8 Connaught Place
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Hong Kong

As to PRC law:
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77 Jianguo Road, Chaoyang District
Beijing
China

As to Cayman Islands law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road
Central
Hong Kong

COMPLIANCE ADVISOR

First Shanghai Capital Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

AUDITOR

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

INVESTOR RELATIONS

Mr. Zheng Chaoran
Investor Relations Director
Email: ir@kepeieducation.com

STOCK CODE

1890

COMPANY'S WEBSITE

www.chinakepeiedu.com

Financial Highlights

A summary of the key financial performance of the Group for the last four financial years, as extracted from the published audited financial statements, is set out below:

FOUR-YEAR COMPARISON OF KEY FINANCIAL FIGURES

Result of operation	For the year ended 31 December			
	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	256,097	349,887	455,382	**575,451**
Gross profit	163,864	235,272	306,229	**389,515**
Profit for the year	119,503	179,274	230,876	**341,956**
Core net profit (note 1)	119,503	179,274	240,434	**345,412**

Note 1: Core net profit was derived from the profit for the year after adjusting for the items which were not indicative of the Group's operating performance. Please refer to the section of "Financial Review" in this annual report for details of the reconciliation of the profit for the year to the core net profit of the Group.

Financial ratio	For the year ended 31 December			
	2015	2016	2017	**2018**
Gross profit margin	64.0%	67.2%	67.2%	**67.7%**
Net profit margin	46.7%	51.2%	50.7%	**59.4%**
Adjusted net profit margin	46.7%	51.2%	52.8%	**60.0%**

Assets, liabilities and equity	As at 31 December			
	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Non-current assets	728,342	895,312	1,163,411	**1,603,428**
Current assets	503,613	765,910	844,737	**726,821**
Current liabilities	335,525	493,383	509,762	**793,715**
Net current assets/(liabilities)	168,088	272,527	334,975	**(66,894)**
Total assets less current liabilities	896,430	1,167,839	1,498,386	**1,536,534**
Non-current liabilities	78,100	170,235	329,777	**103,969**
Total equity	818,330	997,604	1,168,609	**1,432,565**

Cash flows	For the year ended 31 December			
	2015	2016	2017	**2018**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Net cash from operating activities	258,453	288,232	398,496	**483,624**

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the annual report of the Group for the year ended 31 December 2018.

The shares of the Company (the "Shares") were successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 January 2019 (the "Listing"). Landing on the capital markets has brought the Company new opportunities for development. The Company's management will seize the opportunities to further enhance the influence of the Company's brand and further expand its school network with sustained profitability.

BUSINESS HIGHLIGHTS

The Group has achieved encouraging results performance for the year ended 31 December 2018. The Group has launched its new second phase of the construction of Guangdong Polytechnic College Dinghu campus during the year ended 31 December 2018. The students graduated from our undergraduate program achieved an initial employment rate of 96.8%. The total student enrolment of the Group increased from 35,927 for the 2017/2018 school year to 45,118 for the 2018/2019 school year, including an increase of 5,077 students in the undergraduate program. The Group's revenue has increased from approximately RMB455.4 million for the year ended 31 December 2017 to RMB575.5 million for the year ended 31 December 2018 and the profit for the year increased from RMB230.9 million for the year ended 31 December 2017 to RMB342.0 million for the year ended 31 December 2018, representing an increase of 48.1% compared with the profits for the previous year.

The Board has resolved to recommend the payment of final dividend of HK$0.10 per Share for the year ended 31 December 2018.

PROSPECTS

The Group plans to further expand its school network and strengthen its market penetration and market share in the private higher education industry in the PRC through strategically identifying suitable acquisition targets. The Group has conducted nationwide research to look for suitable target schools. The Group will target the mergers and acquisitions of: (1) private regular undergraduate institutions; (2) independent colleges; and (3) high-quality private junior colleges which focus on applied science and target to cultivate applied talents. In addition, the Group will increase the capacity of its schools by expanding its new and existing school campus.

To cultivate high-quality profession-oriented talent with practical skills, the Group plans to further expand and enrich our school-enterprise collaboration programs. The Group aims to establish collaboration programs with more industry-leading enterprises and strengthen its relationships with existing cooperation partners, focusing on collaborative formulation of class plan and course content, customized training majors and courses at its schools and the provision of internship opportunities to its students.

Furthermore, the Group plans to raise tuition fees and boarding fees as necessary and appropriate to reflect its increased operating costs and the adjustment of its major and curriculum offering. The Group believes its leading position and established reputation enable it to further increase its tuition fees while maintaining competitiveness in student admission.

APPRECIATION

On behalf of the Board, I would like to thank all our shareholders for their continued trust and confidence. I would also like to extend our sincere gratitude to the management and the entire staff for carrying out the Group's strategies with outstanding professionalism, integrity and dedication. The Group will strive to continue to expedite the development of our business and focus on maximizing returns to our shareholders.

Ye Nianqiao
Chairman
Hong Kong, 29 March 2019

Management Discussion and Analysis

MARKET OVERVIEW

The private higher education market experienced rapid growth, and entered the phase of regulated development when relevant authorities made great efforts in completing the regulatory framework for private higher education. Private higher education institutions in China can be divided into three categories: (i) private regular undergraduate institutions (民辦普通本科院校); (ii) independent colleges (獨立學院); and (iii) private junior colleges (民辦普通專科院校). Private higher education institutions are distinct from public institutions of higher education mainly in that public institutions of higher education are generally operated by the PRC national or local governments and their major source of funding is PRC public expenditure on education.

According to the market research report on the China's private higher education market prepared by Frost & Sullivan (Beijing) (the "Frost & Sullivan Report"), China's private high education industry has been developing rapidly due to increasing market demand and government support. The total revenue of private higher education industry in China increased from RMB77.9 billion to RMB103.7 billion from 2013 to 2017, representing a compound annual growth rate ("CAGR") of 7.4%. It is expected that it will further increase to RMB149.6 billion in 2022, representing a CAGR of 7.6% from 2017 to 2022. Besides, the number of students enrolled in China's private higher education market increased from 5.6 million to 6.8 million from 2013 to 2017, representing a CAGR of 4.7%. It is expected that it will further increase to 8.3 million in 2022, representing a CAGR of 4.3% from 2017 to 2022. The penetration rate of private higher education in China has increased from 21.1% in 2013 to 22.8% in 2017, which has indicated that more students have chosen to go to private higher education institutions instead of public ones, and this trend is likely to continue as the penetration rate is expected to reach 24.6% in 2022.

BUSINESS OVERVIEW

The Group is a leading provider of private higher education in South China focusing on profession-oriented education. As of the 2018/2019 school year, the Group had an aggregate of 45,118 students enrolled at the schools we operated, namely, Guangdong Polytechnic College and Zhaoqing School.

Market Position

With over 18 years' experience in operating higher education institutions in China, the Group is a leading provider of private higher education services in South China in terms of student enrollment. As of 30 September 2017, according to the Frost & Sullivan Report, Guangdong Polytechnic College ranked first among a total of 61 private higher education institutions (excluding independent colleges) in South China in terms of the number of newly admitted students and student enrollment, with a market share of 2.6% in South China. As of 30 September 2017, according to the Frost & Sullivan Report, Zhaoqing School ranked first in terms of student enrollment among a total of approximately 70 private specialized secondary schools in Guangdong Province, with a market share of 8.5%.

The Group is committed to providing students with high-quality profession-oriented education and helping them meet the growing and changing market demand. It focuses on engineering majors in order to better capture local employment demands, balanced with economics, management, education and art majors to offer well-rounded education services. It endeavors to provide students with various profession-oriented training and internship opportunities in collaboration with research institutions and enterprises, through which it fosters practical skills and market competitiveness of its students.

The PRC Schools

Guangdong Polytechnic College: A degree-granting undergraduate-level education institution established in 2005 which offers undergraduate, junior college and adult education programs. For the 2018/2019 school year, it has a total of 36,860 students enrolled, consisting of 19,977 undergraduate students, 7,610 junior college students and 9,273 adult college students. It offers 41 majors, consisting of 22 undergraduate majors and 19 junior college majors, in a wide range of subject areas. Its core majors include standardisation management, electrical engineering and automation, electronic information engineering and mechanical design; and

Zhaoqing School: A secondary vocational school established in 2000 which provides secondary vocational education in 11 majors, including automobile servicing, electronic commerce, and electromechanical technology application. For the 2018/2019 school year, it has a total of 8,258 students enrolled.

Revenue

For the year ended 31 December 2018, the Group experienced revenue growth at its schools, which was in line with the expansion of its business and student enrollment. Revenue increased from RMB455.4 million for the year ended 31 December 2017 to RMB575.5 million for the year ended 31 December 2018. The Group typically charges students fees comprising tuition fees, boarding fees and other education service fees and tuition fees remained the major revenue, accounted for approximately 90.6% of the total revenue of the Group for the year ended 31 December 2018.

The table below summarises the amount of revenue generated from tuition fees, boarding fees and other education service fees charged by Guangdong Polytechnic College and Zhaoqing Science and Technology Secondary Vocational School (the "PRC Schools") for the periods indicated:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	**Change** RMB'000	**Percentage Change** (%)
Tuition fees				
Undergraduate program	**330,520**	215,060	115,460	53.7
Junior college program	**116,299**	132,461	(16,162)	(12.2)
Adult college program	**27,480**	21,830	5,650	25.9
Upgrade of junior college students				
to undergraduate students	**5,283**	5,075	208	4.1
Secondary vocational education	**41,532**	38,997	2,535	6.5
Total tuition fees	**521,114**	413,423	107,691	26.0
Boarding fees	**44,191**	36,479	7,712	21.1
Other education service fees	**10,146**	5,480	4,666	85.1
Total	**575,451**	455,382	120,069	26.4

The increase of the total revenue of the Group for the year ended 31 December 2018 was mainly due to the increase of the Group's student enrollment and average tuition fee.

The following table sets out the tuition fee information for the PRC Schools for the school years indicated:

	Tuition Fees/ School Year		Boarding Fees/ School Year	
	2018/2019	2017/2018	**2018/2019**	2017/2018
School	**RMB**	RMB	**RMB**	RMB
Guangdong Polytechnic College				
— Undergraduate program	**21,800–22,800**	18,800–19,800	**1,600**	1,500
— Junior college program	**15,800–18,800**	14,100–18,800	**1,600**	1,500
— On-campus adult college program	**5,900–10,700**	5,900–10,700	**1,600**	1,500
— Off-campus adult college program	**2,400**	2,400	**N/A**	N/A
Zhaoqing School				
— Secondary vocational education	**6,100–9,300**	6,100–9,300	**1,600**	1,170–1,570

Notes:

(1) Tuition fees and boarding fees shown above for both of the PRC Schools only apply to newly enrolled students in the relevant school years.

(2) The tuition fees range excluded the "2+2" undergraduate and junior college program offered by Guangdong Polytechnic College, which was generally charged higher than the ordinary program.

Student enrollment

The following table sets out information relating to the student enrollment for the PRC Schools for the school years indicated:

	Numbers of Students Enrolled/School Year		Change	Percentage Change
	2018/2019	2017/2018		(%)
School				
Guangdong Polytechnic College				
Undergraduate program	19,977	14,900	5,077	34.1
Junior college program	7,610	9,309	(1,699)	(18.3)
On-campus adult college program	1,951	2,157	(206)	(9.6)
Off-campus adult college program	7,322	2,209	5,113	231.5
Subtotal	36,860	28,575	8,285	29.0
Zhaoqing School				
Secondary vocational program	8,258	7,352	906	12.3
Total	45,118	35,927	9,191	25.6

The student enrollment information was based on the records of the relevant school year starting in September. For the school year of 2018/2019, the total number of enrolled students of the Group was 45,118, up 25.6% from the school year of 2017/2018.

School Utilisation

School utilisation rate is calculated by boarding student enrollment for a particular school year divided by school capacity for such school year. The capacity for student enrollment at the PRC Schools is calculated by the number of beds available in student dormitories.

	School Capacity/ School Year		School Utilisation Rate/ School Year	
	2018/2019	2017/2018	2018/2019	2017/2018
Guangdong Polytechnic College	29,148	25,148	90.8%	86.3%
Zhaoqing School	6,829	6,829	86.0%	81.3%
Total	35,977	31,977	89.9%	85.2%

Risk Management

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

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

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to its bank loans with floating interest rates.

It is the Group's policy to keep certain borrowings at fixed rates of interest so as to minimise the interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Board will consider hedging significant interest rate risk should the need arise.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of internally generated cash flow from operation, 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.

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

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

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

- The Group has made arrangements with its lenders to ensure that it will be able to obtain credit to support for its business operation and expansion.

Environment, Health and Safety

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or healthcare personnel at each of the PRC Schools to handle routine medical situations involving students. In certain serious and emergency medical situations, the Group promptly sends the students to local hospitals for treatment. With respect to school safety, the Group engaged a qualified property management company to provide property security services at the Group's school premises.

As far as the Board and the management of the Company are aware, the Group has complied in all material respects with the relevant environmental, health and safety laws and regulations that have a significant impact on the business and operation of the Group. During the year ended 31 December 2018 (the "Reporting Period"), there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Future Plans

In strengthening the Group's position as a leading provider of private higher education in South China focusing on profession-oriented education, it plans to pursue the following business strategies:

(i) Expand the Group's school network through strategic mergers and acquisitions

The Group will target at the mergers and acquisitions of: (1) private regular undergraduate institutions; (2) independent colleges; and (3) high-quality private junior colleges which focus on applied science and target to cultivate applied talents. As at the date of this annual report, no target has been identified yet, the Group will continue to look for potential target for mergers and acquisitions.

In terms of geographical coverage, the Group will continue to focus on expanding its school network within Guangdong Province and strengthen its leading position in the Pearl River Delta. It is expected that the development plan for Guangdong-Hong Kong-Macau Greater Bay Area announced on 18 February 2019 will boost the economy and produce increasing demand for professional talents from high-end manufacturing sector and supporting social services. The Group will seize the significant geographical advantage of China's manufacturing center and meet strong local demands for professional talents. Meanwhile, the Group will also explore expansion opportunities in South China and Southwest China, where there is also a relative scarcity of higher education resources, as well as other areas in China with market potential.

The management team of the Group will leverage its extensive experience to further increase competitiveness in student admission and graduate employment, and thus receive higher fees and achieve growth. The Group aims to enhance education quality by transplanting its profession-oriented instruction method and market-oriented major and curriculum offering to the acquired schools. With respect to graduate employment, the Group plans to share its employment information and resources as well as extensive school-enterprise relationships with newly acquired schools. The Group will also implement centralised management over its entire school network, optimise pricing strategy and lower the operating costs of newly acquired schools.

(ii) Increase the capacity of the PRC Schools

The third phase of the construction of the new Dinghu campus of Guangdong Polytechnic College is expected to be completed by the second half of 2019, and will further expand the capacity of Guangdong Polytechnic College by over 3,000 students. Besides the new Dinghu campus, the Group plans to further upgrade the Gaoyao campus of Guangdong Polytechnic College, with focus on the expansion and upgrade of the dormitories and supporting facilities. The construction of the dormitories with a capacity of approximately 7,000 students is expected to be completed in the second quarter of 2020. The Group plans to use proceeds from the Listing, supplemented by the Group's working capital, to fund such expansion and upgrade.

(iii) Strengthening school-enterprise collaboration

The Group plans to further advance its profession-oriented education by strengthening school-enterprise collaboration and improving practical training building and facilities. The Group aims to establish collaboration programs with more industry-leading enterprises and strengthen its relationships with existing cooperation partners, focusing on collaborative formulation of class plan and course content, customised training majors and courses at its schools and the provision of internship opportunities to its students. The construction of the practical training building of the Guangdong Polytechnic College Gaoyao campus is expected to be completed in mid-2019 and will provide sufficient space for the operations of practical training programs. The Group plans to use its working capital to fund the construction of the practical training building.

(iv) Further expand service offering and diversify revenue sources

a. Optimise tuition fees and boarding fees

The Group plans to raise tuition fees and boarding fees for the 2019/2020 school year as necessary and appropriate to reflect its increased operating costs and the adjustment of its major and curriculum offering. The Group believes its leading position and established reputation enable it to further increase its tuition fees while maintaining competitiveness in student admission.

b. Increase in examination training fees

The Group plans to further expand the offering of qualification examination center to improve students' market competitiveness as well as diversify the revenue sources. It encourages all of its students to obtain at least one occupational qualification upon graduation.

USE OF PROCEEDS FROM THE LISTING

The Shares were listed on the Main Board of the Stock Exchange on 25 January 2019 (the "Listing Date"). Net proceeds from the Listing were approximately HK$771.2 million, which, as disclosed in the prospectus of the Company dated 15 January 2019 (the "Prospectus"), will be used for (i) acquiring additional schools; (ii) expanding the existing schools the Group owns or operates; and (iii) repaying loans from third-party financial institutions. For the expected timeline of the use of proceeds, please refer to the implementation plan as set out in the Prospectus.

From the Listing Date to the date of this annual report, the Group has not utilized any of the net proceeds from the Listing.

FINANCIAL REVIEW

Revenue

Revenue represents the value of services rendered during the Reporting Period. The Group derives revenue from tuition fees and boarding fees its schools collect from students.

Revenue increased by RMB120.1 million, or 26.4%, from RMB455.4 million for the year ended 31 December 2017 to RMB575.5 million for the year ended 31 December 2018. This increase was primarily the result of: (i) revenue from tuition fees increasing by RMB107.7 million, or 26.0%, from RMB413.4 million for the year ended 31 December 2017 to RMB521.1 million for the year ended 31 December 2018; and (ii) revenue from boarding fees increasing by RMB7.7 million, or 21.1%, from RMB36.5 million for the year ended 31 December 2017 to RMB44.2 million for the year ended 31 December 2018. The tuition fees increased mainly because: (i) the Group further optimised the program mix and size, while enrollment at other programs remained stable, the number of undergraduate students of Guangdong Polytechnic College increased from 14,900 in the 2017/2018 school year to 19,977 in the 2018/2019 school year, and (ii) the Group raised tuition fees for programs of both its schools for the 2018/2019 school year. The boarding fees increased as a result of the expansion of the student enrollment.

Cost of Sales

Cost of sales consists primarily of staff costs, depreciation and amortisation, utilities, teaching supplies, cost of cooperative education, student study and practice fees, office expenses, training expenses, student subsidies, travel and transportation expenses, cost of repairs, property management fees and others.

Cost of sales increased by RMB36.8 million, or 24.7%, from RMB149.2 million for the year ended 31 December 2017 to RMB185.9 million for the year ended 31 December 2018. This increase was primarily the result of an increase in staff costs, depreciation and amortisation. Staff costs increased by RMB16.1 million, or 25.7%, from RMB62.9 million for the year ended 31 December 2017 to RMB79.0 million for the year ended 31 December 2018, primarily as a result of increased salaries and benefits payable to the Group's teachers. Depreciation and amortisation increased by RMB16.8 million, or 53.4%, from RMB31.3 million for the year ended 31 December 2017 to RMB48.1 million for the year ended 31 December 2018, mainly as a result of the increase in school buildings and equipment after the first and second phases of the construction of Guangdong Polytechnic College Dinghu campus in 2017 and 2018, respectively.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB83.3 million, or 27.2% from RMB306.2 million for the year ended 31 December 2017 to RMB389.5 million for the year ended 31 December 2018, which was in line with the growth of the Group's business. Gross profit margin remained relatively stable for the year ended 31 December 2018 compared to the year ended 31 December 2017.

Other Income and Gains

Other income and gains primarily consist of interest income from bank deposits, foreign exchange gain, and rental income from lease of campus properties and venues to independent third parties. Other income and gains increased significantly from RMB8.7 million for the year ended 31 December 2017 to RMB58.0 million for the year ended 31 December 2018. This increase was primarily due to: (i) an exchange gain of RMB26.4 million resulting from the depreciation of Renminbi against U.S. dollar in relation to the Group's deposits denominated in U.S. dollars; (ii) an increase in rental income from RMB4.6 million for the year ended 31 December 2017 to RMB16.8 million for the year ended 31 December 2018 as a result of lease income from new campus properties available for rental to campus service providers; and (iii) an increase in governmental subsidy from RMB3.1 million for the year ended 31 December 2017 to RMB8.8 million for the year ended 31 December 2018 due to new subsidies from local governments to incentivise local enterprises and education sector.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising expenses, student admission expenses and business entertainment expenses. Selling and distribution expenses increased by RMB6.0 million, or 70.6%, from RMB8.5 million for the year ended 31 December 2017 to RMB14.5 million for the year ended 31 December 2018, due to the increase in advertising and student recruitment expenses after the establishment of Guangdong Polytechnic College Dinghu campus as well as for the increase in student enrollment of Zhaoqing School in the 2018/2019 school year.

Administrative Expenses

Administrative expenses primarily consist of the administrative staff salaries, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB31.5 million, or 68.4%, from RMB46.0 million for the year ended 31 December 2017 to RMB77.5 million for the year ended 31 December 2018, which was primarily due to: (i) staff costs increased by RMB7.8 million, or 52.6%, from RMB14.8 million for the year ended 31 December 2017 to RMB22.6 million for the year ended 31 December 2018, primarily as a result of increased salaries and benefits payable to the administrative staff; (ii) an increase in depreciation and amortisation of office building and equipment by 22.8% from RMB11.0 million for the year ended 31 December 2017 to RMB13.5 million for the year ended 31 December 2018 resulting from the increase in office buildings and equipment after the first and second phase of the construction of Guangdong Polytechnic College Dinghu campus in 2017 and 2018, respectively; (iii) the listing expenses of RMB27.2 million recognised for the year ended 31 December 2018; and (iv) other expenses of RMB3.8 million which primarily consisted of legal and consulting fees incurred in connection with the issuance of convertible bond in April 2018 (the "Convertible Bond") and professional expenses.

Other Expenses

Other expenses primarily consist of expenses relating to change in fair value of the Convertible Bond, one-off donations to independent third parties, disposal of fixed assets and other costs. Other expense increased significantly from RMB1.0 million for the year ended 31 December 2017 to RMB4.6 million for the year ended 31 December 2018. This increase was primarily due to a change in fair value of the Convertible Bond.

Finance Costs

Finance costs primarily consist of the interest expenses for the bank loans and the Convertible Bond. Due to the increased average bank loans and issuance of the Convertible Bond during the year ended 31 December 2018, the total interest of the Group increased by RMB10.8 million compared to that of the year ended 31 December 2017. While certain bank loan was borrowed for the development of school premises, the corresponding interest was capitalised and resulted in the decrease of finance costs by 6.5% from RMB9.6 million for the year ended 31 December 2017 to RMB9.0 million for the year ended 31 December 2018.

Core Net Profit

Core net profit was derived from the profit for the year after adjusting the listing expenses, change in fair value of the Convertible Bond and the foreign exchange gain, which are not indicatives of the Group's operating performance. This is not an Hong Kong Financial Reporting Standards ("HKFRSs") measure. The Group presents this item because the Group considers it an important supplemental measure of the Group's operational performance used by the Group's management as well as analysts or investors. The following table reconciles from profit for the year to core net profit for both financial years:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit for the year	**341,956**	230,876
Add:		
Listing expenses	**27,203**	9,558
Change in fair value of the Convertible Bond	**2,700**	—
Less:		
Foreign exchange gain	**26,447**	—
Core net profit	**345,412**	240,434

Core net profit increased by RMB105.0 million, or 43.7%, from RMB240.4 million for the year ended 31 December 2017 to RMB345.4 million for the year ended 31 December 2018.

Capital Expenditure

Capital expenditures during the Reporting Period primarily related to the establishment of new school premises, maintaining and upgrading existing school premises and purchasing additional educational facilities and equipment for the PRC Schools and prepaid land lease payments. For the year ended 31 December 2018, the Group's capital expenditures were RMB378.7 million.

Liquidity and Financial Resources

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash flows from operating activities	**483,624**	398,496
Net cash flows used in investing activities	**(514,093)**	(170,958)
Net cash flows from financing activities	**67,885**	55,241
Net increase in cash and cash equivalents	**37,416**	282,779
Cash and cash equivalents at beginning of year	**369,058**	86,279
Effect of foreign exchange rate changes, net	**26,447**	—
Cash and cash equivalents at end of year	**432,921**	369,058

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Interest-bearing bank loans	**110,000**	355,000

Analysis of the maturity profile of the interest-bearing bank loans of the Group as at 31 December 2018 and 2017 is set out in the note 22 to the consolidated financial statements. The Group had adequate liquidity to meet its daily management and capital expenditure requirements and control internal operating cash flows.

Capital Structure

The Group's financial department is responsible for the Group's financial risk management which operates according to policies implemented and approved by the senior management. As at 31 December 2018, all the interest-bearing bank loans were settled in RMB, while cash and cash equivalents were primarily held in RMB, HKD and USD. The Group plans to maintain an appropriate mix of financial equity and debt to ensure an efficient capital structure. The outstanding balances of interest-bearing bank loans as at 31 December 2018 were at floating interest rates for loans denominated in RMB.

Significant Investments, Acquisitions and Disposals

There were no significant investments held as at 31 December 2018, nor other material acquisitions and disposals of subsidiaries and associated companies.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total interest-bearing bank loans divided by total equity as at the end of the relevant financial year, decreased from approximately 30.4% as at 31 December 2017 to 7.7% as at 31 December 2018, primarily due to the decrease in the Group's total interest-bearing bank loans.

Foreign Exchange Risk Management

The functional currency of the Company is Renminbi (RMB). The majority of the Group's revenue and expenditures are denominated in RMB. As at 31 December 2018, certain bank balances were denominated in HKD and USD. During the year ended 31 December 2018, the Group did not experience any significant difficulties in or impacts on its operations or liquidity due to fluctuations in currency exchange rates. The Directors believe that the Group has sufficient foreign exchange to meet its own foreign exchange requirements and will adopt practical and effective measures to prevent exposure to exchange rate risk. The Group did not enter into any financial instrument for hedging purpose.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened (as at 31 December 2017: nil).

Pledge of Assets

As at 31 December 2018, the Group did not pledge any of its assets to secure general banking facilities or other source of funding.

Employees and Remuneration Policy

As at 31 December 2018, the Group had 2,089 employees (as at 31 December 2017: 1,775 employees).

The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and result performance of the Group. The Group provides external and internal training programs to its employees. The Group participates in various employee social security plans for its employees that are administered by local governments, including housing, pension, medical insurance, occupational injury insurance, maternity insurance and unemployment insurance.

The total remuneration cost incurred by the Group for the year ended 31 December 2018 was RMB101.6 million (as at 31 December 2017: RMB89.8 million).

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ye Nianqiao (葉念喬), aged 55, is the founder of the Group. He has been an executive Director, the chairman of the Board and the general manager of the Company since its establishment in August 2017, and the chief executive officer of our Company since 26 November 2017. He is primarily responsible for the overall management, strategic planning, business development and cooperation of our Group. Mr. Ye has over 34 years of experience in the education industry.

From September 1984 to July 1992, he served as a teacher at No. 2 Middle School of Jiujiang County, Jiangxi Province (江西省九江縣第二中學) (which was renamed as No. 2 Middle School of Chaisang District, Jiujiang City, Jiangxi Province (江西省九江市柴桑區第二中學) in October 2017). From June 1992 to July 1995, he served as a teacher at Zhaoqing Gaoyao Normal School of Guangdong Province (廣東省肇慶市高要師範學校). From July 1995 to May 2000, Mr. Ye served as the chairman of the board of Zhaoqing Technology Training School (肇慶科技培訓學校). Mr. Ye founded Zhaoqing School (formerly known as Zhaoqing Technology School (肇慶科技學校)) and served as the chairman of its board from May 2000 to July 2010. Mr. Ye founded Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)) and has been serving as the chairman of its board since May 2004. Since September 2016, he has also been the chairman of the board of Zhaoqing Kepei Education Investment Development Co., Ltd.* (肇慶市科培教育投資開發有限公司) ("Zhaoqing Kepei").

Mr. Ye obtained his bachelor's degree in Mathematics from Jiangxi Normal University (江西師範大學) in March 1987. He graduated with a master's degree in Business Management from Sun Yat-Sen University (中山大學) in December 2008. Mr. Ye is a member of the Standing Committee of Guangdong Province of the China Democratic League (中國民主同盟). He was also a committee member of the 11th Chinese People's Political Consultative Conference of Zhaoqing City (中國人民政治協商會議肇慶市第十一屆委員會).

Mr. Ye is the father of Mr. Ye Xun, one of the Directors, and the brother of Mr. Ye Nianjiu, one of the senior management of the Company.

Dr. Zhang Xiangwei (張湘偉), aged 68, has been an executive Director and the chief operating officer of the Company since 26 November 2017. He is primarily responsible for the daily management and overall operations of the Group. He has over 31 years of experience in the education industry.

From December 1987 to January 1997, Dr. Zhang successively held various positions at Chongqing University (重慶大學), including an associate professor of Mechanical Engineering, professor of Mechanical Engineering, head of the faculty of Mechanics, director of the Scientific Technology Research Office (科學技術研究處), vice principal and doctoral tutor. From February 1997 to May 2001, Dr. Zhang served as the principal at Shantou University (汕頭大學). From June 2001 to November 2010, Dr. Zhang served as the principal of Guangdong University of Technology (廣東工業大學). Dr. Zhang has held various positions at Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)), including the acting dean from November 2010 to September 2013, a director since December 2011, the dean since September 2013 and the vice chairman of the board since September 2016.

Dr. Zhang obtained his doctor's degree in Engineering from the University of Tokyo in March 1987.

* for identification purpose only

Mr. Zha Donghui (查東輝), aged 50, has been an executive Director and the deputy general manager of the Company since its establishment. He is primarily responsible for the designing, planning, development and construction of buildings and infrastructure of the Group. Mr. Zha has over 21 years of experience in the education industry.

From September 1996 to August 2001, Mr. Zha served as the vice principal of Zhaoqing Technology Training School (肇慶科技培訓學校). From September 2001 to August 2004, he served as the vice president of Zhaoqing School (formerly known as Zhaoqing Technology College (肇慶科技學校)). From June 2005 to September 2016, Mr. Zha was a director of Zhaoqing School. Since September 2004, Mr. Zha has been serving as a director and an associate dean of Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)), and has been primarily responsible for management of infrastructure and equipment of Guangdong Polytechnic College.

Mr. Zha obtained his master's degree in Computer Science from Guangzhou University of Technology in June 2009.

Ms. Li Yan (李艷), aged 38, has been an executive Director and the deputy general manager of the Company since its establishment and the chief financial officer of the Company since 26 November 2017. She is primarily responsible for the financial management and budget of the Group. Ms. Li has over 13 years of experience in the education industry.

From September 2004 to May 2014, Ms. Li held various positions at Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)), including an accounting teacher, the deputy head of the Department of Accounting, and the secretary to the Party General Branch (黨總支書記) of the Department of Accounting, and was mainly responsible for teaching activities, student management, student admission and graduate employment. Ms. Li has been appointed as the head of the Department of Accounting of Guangdong Polytechnic College since June 2014, a director of Guangdong Polytechnic College since November 2015, and a member of the College Party Committee (黨委委員) of Guangdong Polytechnic College since March 2017. Ms. Li has been appointed as a director and the financial manager of Zhaoqing Kepei since September 2016, and has been responsible for its financial management and budget.

Ms. Li obtained her master's degree in Accounting from Sun Yat-Sen University (中山大學) in June 2011 and obtained the qualification of associate professor of accounting issued by Human Resources and Social Security Department of Guangdong Province (廣東省人力資源和社會保障廳) in December 2014.

Mr. Ye Xun (葉潯), aged 29, has been an executive Director and the deputy general manager of the Company since its establishment. He is primarily responsible for the day-to-day procurement and logistic services and operations of the Group.

From September 2011 to July 2012, Mr. Ye Xun served as an assistant to the dean of Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)). Since October 2016, he has been a director and the head of procurement and logistic services of Guangdong Polytechnic College.

Mr. Ye Xun obtained his master's degree in Business Administration from Northwestern Polytechnic University in April 2015.

Mr. Ye Xun is the son of Mr. Ye Nianqiao, one of the Directors.

Non-executive Director

Mr. Wang Chuanwu (王傳武), aged 72, has been a non-executive Director of the Company since its establishment in August 2017. He is primarily responsible for providing advice on our strategic development and risk management of the Group. Mr. Wang has over 32 years of experience in the education industry.

From February 1986 to July 1991, Mr. Wang served as the deputy principal and the principal of Zhaoqing No. 5 Middle School of Guangdong Province (廣東省肇慶市第五中學). From August 1991 to November 2000, he held various positions at the Education Bureau of Duanzhou District, Zhaoqing City (肇慶市端州區教育局), including the deputy director (副局長) from August 1991 to December 1997, the director (局長) from December 1997 to November 2000 and the secretary to the Party Group (黨組書記) from October 1998 to November 2000, and was primarily responsible for the education system of Duanzhou District. From December 2000 to August 2001, Mr. Wang served as a consultant of Zhaoqing Technology Training School (肇慶科技培訓學校). From September 2001 to August 2004, Mr. Wang served as a consultant of Zhaoqing School (formerly known as Zhaoqing Technology School (肇慶科技學校)). From September 2004 to September 2016, he served as a director and the vice chairman of the board of Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)). Since September 2016, he has been serving as a consultant of Guangdong Polytechnic College.

Mr. Wang obtained his bachelor's degree in Politics Education from South China Normal University (華南師範大學) in July 1985.

Independent Non-executive Directors

Dr. Xu Ming (徐明), aged 47, has been an independent non-executive Director of the Company since 26 November 2017 and is primarily responsible for providing independent opinion and judgment to the Board. Dr. Xu has over 20 years of experience in business management.

From January 2002 to April 2010, Dr. Xu served as the manager of the finance department, the chief financial officer and a director of Chuancai Securities Brokerage Company Limited (川財證券經紀有限公司), and was responsible for the Company's operation and financial management. Mr. Xu Ming joined Chengdu Fangyu Industrial Investment Management Company Limited (成都方輿產業投資管理有限公司) in December 2011 and served as an executive director from November 2013 to September 2014, responsible for the operation and strategy development of the company. From August 2015 to November 2018, Dr. Xu served as an executive director and the chief executive officer of Virscend Education Company Limited, a company listed on the Stock Exchange (Stock Code: 1565). Since February 2016, Dr. Xu has been an external director of Sichuan Agricultural Credit Guarantee Company Limited (四川省農業信貸擔保有限公司).

Dr. Xu obtained his doctor's degree in Economics from Sichuan University in China in June 2009. In August 1997, Dr. Xu was qualified as a Certified Public Accountant by the Certified Public Accountants Committee of the Ministry of Finance of the PRC. In June 1998, he was qualified as a Certified Public Valuer by the Ministry of Finance of the PRC. In February 1999, he was qualified as a Certified Tax Adviser by the State Administration of Taxation of the PRC. In December 2003, he was qualified as a Senior Accountant by the Chengdu Competency Reform Working Group. He is also a member of the Second Session of Financial Accounting Committee of the Securities Association of China.

Dr. Deng Feiqi (鄧飛其), aged 57, has been an independent non-executive Director of the Company since 26 November 2017 and is primarily responsible for providing independent opinion and judgment to the Board.

From September 1991 to July 1995, Dr. Deng served as a secretary of foundation education division (基礎部教學秘書) at the Northeast Heavy Machinery Institute (東北重型機械學院). Dr. Deng has held various positions at South China University of Technology (華南理工大學), including a professor since May 2000 and a doctoral tutor since December 2000. From March 2000 to November 2000, he served as a research associate at the Chinese University of Hong Kong. From January 2008 to January 2013, he served as the dean of Industrial Technology Institute at South China University of Technology (華南理工大學工業研究總院).

Dr. Deng was a member of the Control Systems Simulation Committee of China Systems Simulation Federation (中國系統仿真學會控制系統仿真專業委員會委員) from June 1998 to May 2003. He was a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference Standing Committee (中國人民政治協商會議廣東省委員會常委) from January 2008 to January 2013. He was also a member of the Technical Committee on Control Theory (TCCT) under Chinese Association of Automation (中國自動化學會控制理論專業委員會委員) from January 2013 to December 2017.

Dr. Deng has been a member of the editorial committee of publications including Theory and Application of Control (控制理論與應用) since May 2008, Journal of Systems Engineering (系統工程學報) since August 2011, Systems and Controls (系統與控制縱橫) since January 2014 and Systems Engineering and Electronics (系統工程與電子技術) since April 2016. He has been the associate editor of IEEE Access since February 2018. Dr. Deng has published more than 300 papers in academic publications, including IEEE Transactions on Automatic Control, IEEE Transactions on Circuits and Systems as well as IEEE Transactions on Systems.

Dr. Deng obtained his bachelor's degree in Science from the Department of Applied Mathematics of Hunan University in July 1983. He obtained his doctor's degree in Engineering from the Department of Control Theory and Application of South China University of Technology in July 1997.

Dr. Li Xiaolu (李小魯), aged 66, has been an independent non-executive Director of the Company since 26 November 2017 and is primarily responsible for providing independent opinion and judgment to the Board.

From June 1992 to November 1994, he served as the director of the Office of Guangzhou Academy of Social Sciences (廣州市社會科學院辦公室). From November 1994 to November 1997, he served as the research director of the Office of Guangzhou Chinese People's Political Consultative Conference (廣州市政協辦公廳). From December 1997 to March 2012, he served as a deputy director at the Guangdong Provincial Department of Education (廣東省教育廳). Since March 2010, he has served as a professor at South China University of Technology (華南理工大學) and a doctoral tutor since July 2010.

Dr. Li assumes managerial roles in various associations involving education. Since November 2010, he has been the president of the Research Association for Ideological and Political Education of Higher Education in Guangdong Province (廣東省高等教育思想政治教育研究會). Since May 2012, he has been the president of the Moral Education Research Association of Primary and Secondary Schools in the Guangdong Province (廣東省中小學德育研究會). Since November 2013, he has been the president of the Guangdong Society of Technical and Vocational Education (廣東省職業技術教育學會). From June 2010 to June 2015, Dr. Li served as a deputy head member of the Ideological and Political Theories Teaching Steering Committee for "Situation and Policy" and "Contemporary World Economy and Politics" under the Ministry of Education (教育部高校思想政治理論課"形勢與政策"和"當代世界經濟與政治"分教學指導委員會副主任委員). Since June 2016, he has been the vice president of the Chinese Society of Vocational and Technical Education (中國職業技術教育學會).

Dr. Li obtained his master's degree in Philosophy from South China Normal University (華南師範大學) in July 1988. He obtained his doctor's degree in Philosophy from Sun Yat-Sen University (中山大學) in December 2004.

Senior Management

For the biographies of Mr. Ye Nianqiao (葉念喬), Dr. Zhang Xiangwei (張湘偉), Mr. Ye Xun (葉潯), Ms. Li Yan (李艷) and Mr. Zha Donghui (查東輝), please refer to "Directors and Senior Management — Directors" in this annual report.

Mr. Ye Nianjiu (葉念廄) (formerly known as Mr. Wang Ganwei (王贛偉)), aged 45, has been the chairman of the board of Zhaoqing School since July 2010, and the dean of Zhaoqing School since September 2016, a director of Guangdong Polytechnic College since June 2014, and a director of Zhaoqing Kepei since March 2000. He is primarily responsible for the day-to-day management of student affairs relating to student admission and graduate employment. Mr. Ye has over 23 years of experience in the education industry.

From July 1995 to June 2001, Mr. Ye Nianjiu served as the head of student admission and graduate employment of Zhaoqing Technology Training School (肇慶科技培訓學校) and was primarily responsible for student admission and graduate employment. From July 2001 to February 2004, he served as the head of student admission and graduate employment of Zhaoqing School (formerly known as Zhaoqing Technology School (肇慶科技學校)) and was primarily responsible for student admission and graduate employment. From March 2004 to May 2014, Mr. Ye Nianjiu served as the vice chairman of the board of Guangdong Polytechnic College (formerly known as Zhaoqing Technology Vocational Technical College (肇慶科技職業技術學院)). Since June 2014, he has also been serving as the dean of the College of Continuing Education, within Guangdong Polytechnic College and has been primarily responsible for student admission and graduate employment.

Mr. Ye Nianjiu obtained his junior college diploma in Computer Applications Technology from Guangdong Polytechnic College in January 2011 and obtained his undergraduate diploma in human resource management from Zhaoqing College (肇慶學院) in January 2015.

Mr. Ye Nianjiu is the brother of Mr. Ye Nianqiao, one of the Directors.

Report of Directors

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

GLOBAL OFFERING

The Company was incorporated on 24 August 2017 as an exempted company with limited liability under the laws of the Cayman Islands. The Shares were listed on the Main Board of the Stock Exchange on 25 January 2019 (the "Listing Date").

Use of Proceeds from the Listing

The shares of the Company were listed on the Main Board of the Stock Exchange on 25 January 2019. Net proceeds from the Listing were approximately HK$771.2 million, which, as disclosed in the Prospectus, will be used for (i) acquiring additional schools; (ii) expanding the existing schools the Group owns or operates; and (iii) repaying loans from third-party financial institutions.

From the Listing Date to the date of this annual report, the Group has not utilized any of the net proceeds from the Listing.

PRINCIPAL ACTIVITIES

The Group is a leading provider of private higher education in South China focusing on profession-oriented education. Analysis of the principal activities of the Group during the year ended 31 December 2018 is set out in the note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 84 of this annual report.

DIVIDEND POLICY

The Board has adopted a dividend policy (the "Dividend Policy") in compliance with code provision E.1.5 of the Corporate Governance Code and Corporate Governance Report (the "CG Code") with effect from 15 January 2019. Declaration and payment of dividends by the Company is also subject to compliance with applicable laws and regulations including the laws of the Cayman Islands and the articles of association of the Company.

Under the Dividend Policy, the Company can declare interim dividends or special dividends from time to time in addition to the final dividends. In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the financial results, cash flow situation, business conditions and strategies, future operations and earnings, the Group's expected capital requirements, the statutory fund reserve requirements, the retained earnings and distributable reserves of the Company and each of the members of the Group, and any other factors that the Board deems appropriate.

The Dividend Policy will continue to be reviewed and updated from time to time by the Board and the Dividend Policy shall in no way constitute a legally binding commitment by the Company that any dividend will be proposed or declared in any given period.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of HK$0.10 per Share for the year ended 31 December 2018 (2017: Nil). The final dividend is subject to the approval of shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company to be held on 3 June 2019 (the "AGM") and will be payable on or around 2 July 2019 to the Shareholders whose names appear on the register of members of the Company on 13 June 2019.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2018 and analysis by using financial key performance indicators, the Company's environmental policies and performance and a discussion on the Group's future business development are contained in the Management Discussion and Analysis on pages 8 to 19 of this annual report.

RISKS AND UNCERTAINTIES

The principal risks and uncertainties that may cause the Group's financial conditions or results materially different from the expected or historical results are set out in note 35 to the consolidated financial statements and in the section headed "Management Discussion and Analysis" of this annual report.

FINANCIAL SUMMARY

A summary of the Group's key financial performance for the last four financial years are set out in the section headed "Financial Highlights" on page 5 of this annual report. This summary does not form part of the audited consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2018, the Group's customers primarily consist of the Group's students. The Group did not have any single customer who accounted for more than 5% of the Group's revenue.

Major Suppliers

For the year ended 31 December 2018, the Group's five largest suppliers accounted for 57.8% (for the year ended 31 December 2017: 62.4%) of the Group's total purchases and our single largest supplier accounted for 46.1% (for the year ended 31 December 2017: 53.0%) of the Group's total purchases.

As at the date of this annual report, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued Shares) had any interest in the Group's five largest customers and suppliers.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with employees, suppliers and customers. During the year ended 31 December 2018, the Group strived to satisfy both the students and their parents by continuing to provide better education services. The Group also maintained ongoing communication with suppliers to shorten the delivering cycle and to obtain better payment terms. There was no material and significant dispute between the Group and its employees, suppliers and/or customers during the Reporting Period.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 25 to the consolidated financial statements.

RESERVES AND DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 87 and summary of the Company's reserve on page 166 of this annual report respectively, of which, the reserves available for distribution to Shareholders as at 31 December 2018 are set out in note 26 to the consolidated financial statements.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2018 are set out in note 22 to the consolidated financial statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report will be issued within three months after the publication of this annual report in accordance with Appendix 27 of the Listing Rules.

DIRECTORS

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

Executive Directors

Mr. Ye Nianqiao *(Chairman and Chief Executive Officer)*
Dr. Zhang Xiangwei
Mr. Zha Donghui
Ms. Li Yan
Mr. Ye Xun

Non-executive Director

Mr. Wang Chuanwu

Independent Non-executive Directors

Dr. Xu Ming
Dr. Deng Feiqi
Dr. Li Xiaolu

In accordance with article 16.2 of the articles of association of the Company (the "Articles of Association"), the Directors being Mr. Ye Nianqiao, Mr. Ye Xun and Dr. Xu Ming shall retire from office as Directors and being eligible, have offered themselves for re-election as Directors at the forthcoming AGM.

In accordance with article 16.19 of the Articles of Association, the Directors being Mr. Ye Nianqiao, Mr. Ye Xun and Dr. Xu Ming shall retire by rotation and being eligible, have offered themselves for re-election as Directors at the forthcoming AGM.

Details of the Directors to be re-elected at the forthcoming AGM are set out in the circular to the Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Group are set out on pages 20 to 24 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") from each of the independent non-executive Directors and the Company considers such Directors to be independent during the period of the Listing Date to the date of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transaction" and otherwise disclosed in this annual report, no Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period of the Listing Date to the date of this annual report.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transaction" and otherwise disclosed in this annual report, no contract of significance to which the Company or any of its subsidiaries was a party and in which the controlling shareholders of the Company or an entity connected with the controlling shareholders had a material interest, either directly or indirectly, subsisted during the period of the Listing Date to the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the period of the Listing Date to the date of this annual report.

EMOLUMENT POLICY

A remuneration committee was set up for reviewing the Group's emolument policy and structure for all remuneration of the directors and senior management of the Group, having regard to the Group's operating results, individual performance of the directors and senior management and comparable market practices. In addition, the Company has adopted a share option scheme as an incentive to director, senior management and employee for their contribution to the Group and to attract and retain key personnel.

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

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 2.4 to the consolidated financial statements.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Director has entered into a service contract with us for an initial fixed term of three years commencing from 26 April 2018 and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of the independent non-executive Directors has entered into a service contract with us for an initial fixed term of three year commencing from 26 April 2018 and will continue thereafter until terminated by not less than three months' notice in writing by served by either party on the other, which notice shall not expire until after the fixed term.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

As at the date of this annual report, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571) (the "SFO")) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Name of Director or chief executive	Capacity/Nature of Interest	Number of Shares[2]	Approximate Percentage of Shareholding in the Company[1]
Ye Nianqiao	Interest in a controlled corporation[3]	675,000,000(L)	33.74%
	Interest of spouse[4]	375,000,000(L)	18.74%
Ye Xun	Interest in a controlled corporation[5]	300,000,000(L)	14.99%

Notes:

1. As at the date of this annual report, the total number of issued Shares is 2,000,798,667 Shares.

2. The letter "L" denoted the person's long position in the Shares.

3. Qiaoge Company Limited is wholly-owned by Mr. Ye Nianqiao. By virtue of Part XV of the SFO, Mr. Ye Nianqiao is deemed to be interested in the Shares held by Qiaoge Company Limited.

4. Mr. Ye Nianqiao is the husband of Ms. Shu Liping. By virtue of Part XV of the SFO, Mr. Ye Nianqiao is deemed to be interested in the Shares indirectly held by Ms. Shu Liping through Shuye Company Limited.

5. Chenye Company Limited is beneficially and wholly-owned by Mr. Ye Xun. By virtue of Part XV of the SFO, Mr. Ye Xun is deemed to be interested in the Shares held by Chenye Company Limited.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

As at the date of this annual report, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares(2)	Approximate Percentage of Shareholding in the Company(1)
Qiaoge Company Limited	Beneficial owner	675,000,000(L)	33.74%
Shuye Company Limited	Beneficial owner(3)	375,000,000(L)	18.74%
Shu Liping	Interest in a controlled corporation(3)	375,000,000(L)	18.74%
	Interest of spouse(3)	675,000,000(L)	33.74%
Chenye Company Limited	Beneficial owner	300,000,000(L)	14.99%
SKYLINE MIRACLE LIMITED	Beneficial owner(4)	146,666,667(L)	7.33%
Gabriel Li	Interest in a controlled corporation(4)	146,666,667(L)	7.33%
Lam Lai Ming	Interest in a controlled corporation(4)	146,666,667(L)	7.33%
AREO HOLDINGS LIMITED	Interest in a controlled corporation(4)	146,666,667(L)	7.33%
ORCHID ASIA V GROUP, LIMITED	Interest in a controlled corporation(4)	136,400,000(L)	6.82%

Name of Shareholder	Nature of Interest	Number of Shares[2]	Approximate Percentage of Shareholding in the Company[1]
ORCHID ASIA V GROUP MANAGEMENT, LIMITED	Interest in a controlled corporation[4]	136,400,000(L)	6.82%
ORCHID ASIA VII GP, LIMITED	Interest in a controlled corporation[4]	136,400,000(L)	6.82%
OAVII HOLDINGS, L.P.	Interest in a controlled corporation[4]	136,400,000(L)	6.82%
ORCHID ASIA VII, L.P.	Interest in a controlled corporation[4]	136,400,000(L)	6.82%

Notes:

1. As at the date of this annual report, the total number of issued Shares is 2,000,798,667 Shares.

2. The letter "L" denoted the person's long position in the Shares.

3. Shuye Company Limited is wholly-owned by Ms. Shu Liping. By virtue of Part XV of the SFO, Ms. Shu Liping is deemed to be interested in the Shares held by Shuye Company Limited. Mr. Ye Nianqiao is the husband of Ms. Shu Liping. By virtue of Part XV of the SFO, Ms. Shu Liping is deemed to be interested in the Shares indirectly held by Mr. Ye Nianqiao through Qiaoge Company Limited.

4. Skyline Miracle Limited, was beneficially owned by Orchid Asia VII, L.P. as to 93% and Orchid Asia VII Co-Investment, Limited as to 7%. Orchid Asia VII, L.P. was wholly controlled by OAVII Holdings, L.P. (in its capacity as general partner of Orchid Asia VII, L.P.), which was in turn wholly controlled by Orchid Asia VII GP, Limited (in its capacity as general partner of OAVII Holdings, L.P.), which was in turn wholly owned by Orchid Asia V Group Management, Limited, which was in turn wholly owned by Orchid Asia V Group, Limited, which was in turn wholly owned by Areo Holdings Limited. Areo Holdings Limited was wholly owned by Ms. Lam Lai Ming. Areo Holdings Limited was also controlled by Mr. Gabriel Li by virtue of his directorship therein. Accordingly, Ms. Lam Lai Ming and Mr. Gabriel Li were taken to be interested in the Conversion Shares in which Areo Holdings Limited was interested by virtue of Part XV of the SFO.

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

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 10 January 2019 (the "Share Option Scheme"), under which the Company may issue options to purchase up to a total of 200,000,066 Shares to the Directors, senior management and employees. The Share Option Scheme will be valid and effective for a period of ten years commencing on 10 January 2019. Details of which are set out below:

1. Purpose

The purpose of the Share Option Scheme is to provide incentives and rewards to the Directors, employees, advisers, consultants and business partners of the Group for their contribution, and to align the corporate objectives and interest between the Group and its key talents.

2. Who may join

The Board may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to any director, employee, adviser, consultant and business partners of the Group (collectively, the "Eligible Participant").

In determining the basis of offering options to an Eligible Participant, the Board shall take into account, without limitations, the employee grade, years of service, overall performance of such Eligible Participant, and/or such factors as the Board may at its discretion consider appropriate, for the purpose of management.

3. Maximum number of Shares in respect of which options may be granted

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 must not in aggregate exceed 200,000,066 Shares, representing 10% of the Shares in issue as at the Listing Date (the "Scheme Mandate Limit"), excluding for this purpose options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Company, provided that:

(a) the Company may at any time as the Board think fit seek approval from the Shareholders to refresh the Scheme Mandate Limit, save that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as at the date on which the Shareholders approve the refreshment of the Scheme Mandate Limit. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, canceled, lapsed or exercised in accordance with the terms of the relevant scheme) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules;

(b) the Company may seek separate approval from the Shareholders in general meeting for granting options to any Eligible Participant specifically identified by them which would cause the Scheme Mandate Limit to be exceeded. The Company shall send to the Shareholders a circular containing, among other things, a generic description of the specified Eligible Participant who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participant with an explanation as to how the terms of the options serve such purpose and such other information required under Chapter 17 of 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 share option schemes of the Company must not exceed 30% of the Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted in the event of any alteration to the capital structure of the Company whether by way of capitalization of profits or reserves, open offer, rights issue, consolidation, reclassification, reconstruction, subdivision of shares, or reduction of the share capital of the Company but shall not in any event exceed the limits imposed by the Listing Rules.

4. Maximum entitlement of each participant

No option may be granted to any Eligible Participant which, if exercised, would result in such Eligible Participant becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all Options granted to him (including exercised, canceled and outstanding Options) in the 12-month period up to and including the date of offer, exceeds 1% of the Shares in issue at such date. Any further grant of options in excess of this 1% limit shall be subject to the approval of the Shareholders in general meeting with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The Company shall send to the Shareholders a circular containing the identity of the Eligible Participant, the number and terms of the options to be granted (and options previously granted to such Eligible Participant) and such other information required under Chapter 17 of the Listing Rules.

The number and terms (including the exercise price) of the options to be granted to such Eligible Participant must be fixed before the Shareholders' approval and the date of the Board meeting approving such further grant shall be taken as the date of grant for the purpose of determining the exercise price of the options.

5. Granting Options to connected persons

Any grant of options to a Director (including an independent non-executive Director), chief executive or substantial shareholder (as defined in the Listing Rules) of the Company, or any of their respective associates (as defined in the Listing Rules), under the Share Option Scheme must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director, or any of their respective associates (as defined in the Listing Rules), will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(a) representing in aggregate over 0.1% of the Shares in issue; and

(b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK$5.0 million,

such further grant of options by the Board must be approved by the Shareholders. Any Shareholder who is a connected person (as defined in the Listing Rules) of the Company must abstain from voting on the resolution to approve such further grant of options, except that such a connected person (as defined in the Listing Rules) may vote against such resolution subject to the requirements under Chapter 17 of the Listing Rules. The Company shall send to the Shareholders a circular containing the information required under Chapter 17 of the Listing Rules.

6. Acceptance of an offer of options

An offer of options shall be open for acceptance for such period (not exceeding 30 calendar days from, and inclusive of, the date of grant) as the Board may determine and notify to the Eligible Participant concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme or after the Share Option Scheme has been terminated. An offer of options not accepted within this period shall lapse. An amount of HK$1.00 is payable upon acceptance of the grant of options and such payment shall not be refundable and shall not be deemed to be a part of payment of the exercise price.

7. Exercise price

The exercise price in respect of any option shall be such price as the Board determined by the Board and notified to an option holder and which shall not be less than the higher of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day;

(b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

8. Duration of the Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption date of the Share Option Scheme after which no further options will be granted, but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme.

9. Timing of vesting and exercise of options

Any option shall be vested on an option holder immediately upon his acceptance of the offer of options. Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remain unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed 10 years from the grant date of the option.

An option shall be subject to such terms and conditions (if any) as may be determined by the Board at the date of offer and specified in the offer of the option. Notwithstanding the above, there is no minimum period for which any option must be held before it can be exercised and no performance target which needs to be achieved by an option holder before the option can be exercised.

10. Restriction on the time of grant of options

The Board may not grant any options after inside information has come to its knowledge until such inside information has been published in accordance with the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

(a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and

(b) the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no option may be granted. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

Other details of the Share Option Scheme and the terms thereof are set out in the Prospectus.

As at 31 December 2018, no option under the Share Option Scheme has been granted and no options remain outstanding and unexercised.

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 200,000,066 representing approximately 10% of the issued Shares and the remaining life of the Share Option Scheme was around nine years and ten months.

EQUITY-LINKED AGREEMENTS

Save as the disclosed in the section headed “Share Option Scheme” of this annual report, no equity-linked agreements were entered into by the Company, or existed during the period from the Listing Date to the date of this annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

CONTINUING CONNECTED TRANSACTION

As the Company had not been listed on the Stock Exchange as at 31 December 2018, during the year ended 31 December 2018, the provisions relating to disclosure of connected transactions under Chapter 14A of the Listing Rules were not applicable to the Company.

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

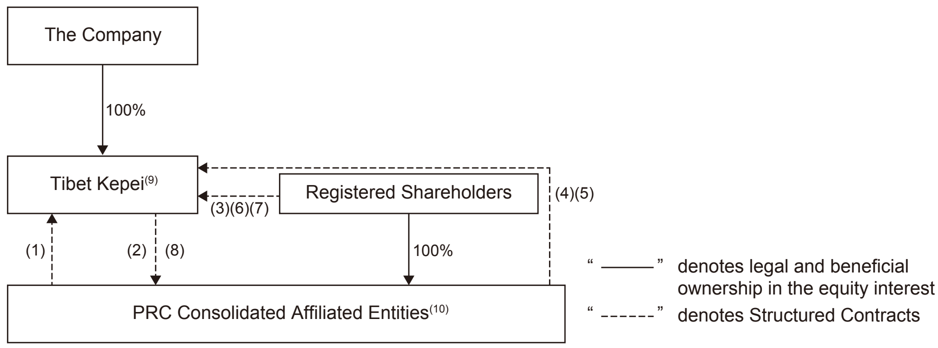
Structured Contracts

A. Overview

The Group conducts private higher education and secondary vocational education business through the PRC Schools in Guangdong Province of the PRC. In the PRC, the private education industry is subject to certain foreign ownership restrictions. Under applicable laws and regulations in Guangdong Province, education institutions offering higher education and secondary vocational education must be operated in the form of Sino-foreign cooperation. Furthermore, applicable PRC laws and regulations impose Qualification Requirements on the foreign investors of Sino-foreign joint venture private schools (“Sino-Foreign Joint Venture Private Schools”). However, in practice, the PRC government usually withholds approval in respect of the application for the establishment of Sino-foreign joint venture private schools. As such, the Group does not hold any equity interest in the PRC Schools and it obtained control over and derive economic benefits from the PRC Schools and Zhaoqing Kepei Education Investment Development Co., Ltd. (肇慶市科培教育投資開發有限公司) (“Zhaoqing Kepei” or the “School Sponsor”) through the Structured Contracts (as defined in the Prospectus). The Structured Contracts have been narrowly tailored to achieve the Group’s business purpose and minimize the potential conflict with the relevant PRC laws and regulations.

In order to comply with the PRC laws and regulations as set out above while availing the Group of international capital markets and maintaining effective control over all of our operations, on 10 July 2018, the Group's wholly-owned subsidiary, Tibet Kepei Information Technology Co., Ltd.* (西藏科培信息科技有限公司) ("Tibet Kepei"), entered into the Structured Contracts with, among others, the PRC Schools and the School Sponsor, pursuant to which all economic benefits arising from the business of the PRC Schools and the School Sponsor are transferred to Tibet Kepei to the extent permitted under the PRC laws and regulations by means of service fees payable by the PRC Schools and the School Sponsor to Tibet Kepei.

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



Notes:

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

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

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

(4) Entrustment of the School Sponsor's rights in the PRC Schools by Zhaoqing Kepei. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (6) School Sponsor's and Directors' Rights Entrustment Agreement" and "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (9) School Sponsor's Powers of Attorney" in the Prospectus for details.

(5) Entrustment of directors' rights in the PRC Schools by directors of the PRC Schools including directors' powers of attorney. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (6) School Sponsor's and Directors' Rights Entrustment Agreement" and "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (8) Directors' Power of Attorney" in the Prospectus for details.

(6) Entrust of Shareholders' right including Registered Shareholders' Power of Attorney. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (5) Registered Shareholders' Rights Entrustment Agreement" and "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (7) Registered Shareholders' Power of Attorney" in the Prospectus for details.

(7) Pledge of equity interest by the Registered Shareholders of their equity interest in Zhaoqing Kepei. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (4) Equity Pledge Agreement" in the Prospectus for details.

(8) Provision of loans by Tibet Kepei to Zhaoqing Kepei. Please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (11) Loan Agreement" in the Prospectus for further details.

(9) On 10 July 2018, the original structured contracts dated 26 April 2018 were terminated as we incorporated a new wholly foreign owned enterprise in Tibet Autonomous Region, Tibet Kepei, which had assumed the rights and obligations of Zhaoqing Information Technology under the original structured contracts since 10 July 2018.

(10) Guangdong Polytechnic College held 49% of the equity in Research Institute of Intelligent Manufacturing (Zhaoqing Gaoyao) Co., Ltd (the "Research Institute"). Research Institute was established in the PRC on 11 May 2016 with an initial registered capital of RMB5,000,000, and was held by Guangdong Polytechnic College and Guangzhou Wanzhi Information Technology Co., Ltd. (廣州萬智資訊科技有限公司), an independent third party, as to 49% and 51%, respectively. The principal business of Research Institute is researching and fostering intelligent manufacturing technology and applications.

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

Zhaoqing Kepei, the School Sponsor, is a special purpose vehicle established as a holding company to hold interests in the PRC Schools. Zhaoqing Kepei is not engaged in any other business other than the aforesaid. Under the Structured Contracts, each of the School Sponsor and the PRC Schools (collectively, the "PRC Consolidated Affiliated Entities") entered into the Exclusive Technical Service and Management Consultancy Agreement and Loan Agreement with, among others, Tibet Kepei, pursuant to which each of the PRC Schools and the School Sponsor will be directly bound by and subject to the terms and conditions thereof.

Accordingly, for any services provided by Tibet Kepei to any of the PRC Schools and the School Sponsor, the respective service fee will be paid by the School Sponsor and/or PRC Schools to Tibet Kepei directly. In addition, in order to prevent the leakage of assets and values of the PRC Schools, the shareholders of Zhaoqing Kepei, namely Mr. Ye Nianqiao, Ms. Shu Liping, Mr. Ye Xun and Mr. Ye Nianjiu (collectively, the "Registered Shareholders"), the School Sponsor and the PRC Schools have undertaken that, without the prior written consent of Tibet Kepei or its designated party, the Registered Shareholders, the Schools Sponsors or the PRC Schools shall not, among others, distribute dividends or other payments to our School Sponsor, or the Registered Shareholder.

B. Summary of the material terms of Structured Contracts

(1) Business Cooperation Agreement

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

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

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

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

(2) Exclusive Technical Service and Management Consultancy Agreement

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

Furthermore, Tibet Kepei agreed to provide exclusive management consultancy services to the PRC Schools and the School Sponsor, including but not limited to, (a) design of curricula; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long-term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimization on annual budget; (h) advising on the design of internal structures and internal management; (i) provision of management and consultancy training to administrative staff; (j) conducting market research and investigation and providing market information feedback and business development recommendation; (k) preparation of market development plan; (l) building of online and offline marketing networks; and (m) providing other services reasonably requested by the PRC Schools and the School Sponsor.

In consideration of the technical and management consultancy services provided by Tibet Kepei, each of the PRC Schools and our School Sponsor agreed to pay Tibet Kepei a service fee equal to all of their respective amounts of surplus from operations (after deducting necessary costs, expenses, taxes, losses from the previous year (if required by the law) and the legally compulsory development fund of the respective school (if required by the law) and other expenses required by the applicable PRC laws; and our School Sponsor agreed to pay Tibet Kepei a service fee equal to all of its net profit (after deducting all necessary costs, expenses, taxes, losses from the previous year (if required by law) and statutory accumulation funds. Tibet Kepei has the right (but not the obligation) to adjust the amount of such service fee by reference to the actual services provided and the actual business operations and needs of the PRC Schools and the School Sponsor, provided that any adjusted amount shall not exceed the amount mentioned above.

Pursuant to the Exclusive Technical Service and Management Consultancy Agreement, unless otherwise prescribed under the PRC laws and regulations, Tibet Kepei 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 Tibet Kepei to the PRC Schools and the School Sponsor, and any intellectual property in the products developed, including any other rights derived thereunder, in the course of performance of obligations under the Exclusive Technical Service and Management Consultancy Agreement and/or any other agreements entered into between Tibet Kepei and other parties.

(3) Exclusive Call Option Agreement

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

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

(4) Equity Pledge Agreement

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

Pursuant to the Equity Pledge Agreement, without the prior written consent of Tibet Kepei, the Registered Shareholders shall not transfer the equity interest or create any further pledge or encumbrance over the pledged equity interest. Any unauthorized transfer shall be invalid. The Registered Shareholders also waived any pre-emptive rights upon enforcement and agreed to any transfer of the pledged equity pursuant to the Equity Pledge Agreement.

(5) Registered Shareholders' Rights Entrustment Agreement

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

In addition, each of the Registered Shareholders and Zhaoqing Kepei has irrevocably agreed that (i) Tibet Kepei may delegate its rights under the Registered Shareholders' Rights Entrustment Agreement to the directors of Tibet Kepei or its designated person; and (ii) any person as successor of civil rights of Tibet Kepei or liquidator by reason of subdivision, merger or liquidation of Tibet Kepei or other circumstances shall have authority to replace Tibet Kepei to exercise all rights under the Registered Shareholders' Rights Entrustment Agreement.

(6) School Sponsor's and Directors' Rights Entrustment Agreement

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, Zhaoqing Kepei has irrevocably authorized and entrusted Tibet Kepei to exercise all its rights as the school sponsor of each of the PRC Schools to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors or council members of the schools; (b) the right to appoint and/or elect supervisors of the schools; (c) the right to understand the operation and financial situation of the schools; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the schools; (e) the right to obtain reasonable returns as the school sponsor of the schools in accordance with the laws and the articles of association of each school; (f) the right to acquire residual assets upon liquidation of the schools in accordance with the laws and the articles of association of each school; (g) the right to transfer school sponsor's interest in accordance with the laws; (h) the right to make a choice between profitability and non-profitability of the schools in accordance with the PRC laws, regulations or regulatory documents; (i) the right to vote on behalf of the schools regarding bankruptcy, liquidation, dissolution or termination of the schools; (j) the right to handle the legal procedures of registration, approval, licensing and filing of the PRC Schools at the education department, the department of civil affairs or other government regulatory departments and deliver any document to the relevant government authority that the school sponsor is required to deliver; and (k) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time.

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, each of the directors of each PRC Schools appointed by Zhaoqing Kepei (the "Appointees") has irrevocably authorized and entrusted Tibet Kepei to exercise all his/her rights as directors of the PRC Schools is appointed by our School Sponsor and to the extent permitted by the PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representative of the directors appointed by our School Sponsor; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of each of the PRC Schools; (c) the right to propose to convene interim board meetings of each of the PRC Schools; (d) the right to sign all board minutes, board resolutions and other legal documents which the directors appointed by Zhaoqing Kepei has authority to sign in his/her capacity as directors of the PRC Schools; (e) the right to instruct the legal representative and financial and business and administrative responsible persons of the PRC Schools to act in accordance with the instruction of Tibet Kepei; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of the PRC Schools; (g) the right to vote on behalf of the schools in respect of bankruptcy, liquidation, dissolution or termination of the schools; (h) the right to handle the legal procedures of registration, approval and licensing of the PRC Schools at the education department, the department of civil affairs or other government regulatory departments and deliver any document to the relevant government authority that the school sponsor is required to deliver; and (i) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of the PRC Schools as amended from time to time

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

(7) Registered Shareholders' Power of Attorney

Pursuant to the Registered Shareholders' Powers of Attorney executed by each of the Registered Shareholders in favor of Tibet Kepei, each of the Registered Shareholders authorized and appointed Tibet Kepei, as his or their agent to act on his or their behalf to exercise or delegate the exercise of all his or their rights as shareholders of Zhaoqing Kepei. For details of the rights granted, please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (5) Registered Shareholders' Rights Entrustment Agreement" in the Prospectus.

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

(8) Directors' Power of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of Tibet Kepei, each of the Appointees authorized and appointed Tibet Kepei (the sole director of which is not a director of any of the School Sponsor and/or the PRC Schools and therefore does not give rise to any conflict of interest), as his/her agent to act on his/her behalf to exercise or delegate the exercise of all of his/her rights as directors of the PRC Schools. For details of the rights granted, please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (6) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

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

(9) School Sponsor's Power of Attorney

Pursuant to the School Sponsor's Powers of Attorney executed by the School Sponsor in favour of Tibet Kepei, the School Sponsor authorized and appointed Tibet Kepei (the sole director of which is not a director of any of the School Sponsor and/or the PRC Schools and therefore does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of the PRC Schools. For details of the rights granted, please see "— Operation of the Structured Contracts — Summary of the Material Terms of the Structured Contracts — (6) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

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

(10) Spouse Undertakings

Pursuant to the Spouse Undertakings, each of Mr. Ye Nianqiao, Ms. Shu Liping, the spouse of Mr. Ye Nianjiu and the spouse of Mr. Ye Xun (the "Relevant Spouse") has irrevocably undertaken that:

(a) the Relevant Spouse has full knowledge of and has consented to the entering into of the Structured Contracts by his/her spouse, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the direct or indirect equity interest in Zhaoqing Kepei, pledge or transfer the direct or indirect equity interest in Zhaoqing Kepei, or the disposal of the direct or indirect equity interest in Zhaoqing Kepei in any other forms;

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

(c) the Relevant Spouse authorizes his/her spouse 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 Relevant Spouse in relation to the Relevant Spouse's equity interest in Zhaoqing Kepei (direct or indirect) in order to safeguard the interest of Tibet Kepei under the Structured Contracts and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

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

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

(f) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tibet Kepei and the Relevant Spouse in writing; and

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

(11) Loan Agreement

Pursuant to the Loan Agreement, Tibet Kepei agreed to provide interest-free loans to Zhaoqing Kepei in accordance with the PRC laws and regulations and Zhaoqing Kepei agreed to utilize the proceeds of such loans to contribute as capital of the PRC Schools in its capacity as school sponsor in accordance with the Company's instructions.

The terms of the Loan Agreement shall continue until all direct or indirect interest of the PRC Schools and the School Sponsor has been transferred to Tibet Kepei or its designee and/or the Company or its designee and the registration process required thereafter has been completed with the relevant local authorities.

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

C. Business activities of the PRC Consolidated Affiliated Entities

The business activities of the consolidated affiliated entities of the Group, namely the School Sponsor, Guangdong Polytechnic College and Zhaoqing School are primarily to provide private higher education and secondary vocational education to the Group's students.

D. Significance and Financial Contributions of PRC Consolidated Affiliated Entities

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

	Significances and financial contributions to the Group					
	Revenue For the year ended December 31		Net profit For the year ended December 31		Total assets As of December 31	
	2017	**2018**	2017	**2018**	2017	**2018**
PRC Consolidated Affiliated Entitles	100%	100%	102%	102%	100%	85%

E. Revenue and assets involved in Structured Contracts

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

	Revenue For the year ended December 31 2018 RMB'000	Total Assets as of December 31 2018 RMB'000
PRC Consolidated Affiliated Entitles	575,451	1,982,885

F. Regulatory framework and legality of the Structured Contracts

1. Higher education and secondary vocational education

Pursuant to the Foreign Investment Industries Guidance Catalog (Amended in 2017) ("Foreign Investment Catalog"), the provision of higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalog explicitly provides that higher education must be operated in the form of Sino-foreign cooperation, which means that the foreign investor shall operate higher education in the PRC through cooperation with a PRC education institution in compliance with the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條款) promulgated by the State Council in 2003 and amended on July 18, 2013 (the "Sino-Foreign Regulation"). In addition, the Foreign Investment Catalog also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or chief executive officer of the school shall be a PRC national; and (b) the representatives of the domestic party shall account for no less than half of the total number of members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative education institution (the "Foreign Control Restriction"). As confirmed by the PRC legal advisors, the Company had complied with the Foreign Control Restriction in respect of the PRC Schools on the basis that (a) the principals and the chief executive officers of the PRC Schools are all PRC nationals; and (b) all the members of the board of directors of the PRC Schools are PRC nationals, while secondary vocational education is not listed as restricted category in the Foreign Investment Catalog.

The Company further consulted the Guangdong Provincial Department of Education, being the competent authority as advised by the PRC legal advisors, on the applicability of foreign investment restrictions to secondary vocational education. As advised by the relevant officer of the policies and regulation division at the Guangdong Provincial Department of Education, being the competent authority as advised by the PRC legal advisors, the application by a foreign investor to invest in or operate as a school sponsor of secondary vocational education in any form other than Sino-foreign cooperation will not be approved or permitted.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if we were to apply for any of the schools offering higher education to be reorganized as a Sino-Foreign Joint Venture Private School for PRC students, the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign education institution with relevant qualifications and one that provides high quality education (the "Qualification Requirement"). Furthermore, pursuant to the 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"). In addition, if we were to apply for any of the schools offering secondary vocational education to be reorganized as a Sino-Foreign Joint Venture Private School, we were advised by the relevant officer of the policies and regulation division at the Guangdong Provincial Department of Education, being the competent authority as advised by the PRC legal advisors, that the Foreign Ownership Restriction and Qualification Requirement also apply to education institutions offering secondary vocational education aiming for PRC students.

The PRC legal advisors have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as the length of experience and the form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement.

On 20 September 2017, with the assistance of the PRC legal advisors, the Company consulted the Guangdong Provincial Department of Education, being the competent authority as advised by the PRC legal advisors, to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to the Company. The Company was advised by the relevant officer of the policies and regulation division at the Guangdong Provincial Department of Education that:

(i) the Foreign Ownership Restriction applies to Sino-Foreign Joint Venture Private Schools engaging in higher education and secondary vocational education in the region;

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

(iii) as a matter of policy, no Sino-Foreign Joint Venture Private School (as a separate legal person) had been approved in Guangdong Province after the Sino-Foreign Regulation became effective, and no application had been received in respect of establishing Sino-Foreign Joint Venture Private Schools;

(iv) the application to convert the PRC Schools into Sino-Foreign Joint Venture Private Schools would not be approved; and

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

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

2. *Plan to comply with the Qualification Requirement*

The Company has adopted a specific plan and begun to take the following concrete steps which it reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement. According to the consultation with the Guangdong Provincial Department of Education, they would not approve the Company's application to convert the PRC Schools into Sino-Foreign Joint Venture Private Schools and there were no implementing measures or specific guidance on the Qualification Requirement. The PRC legal advisors are of the view that, notwithstanding it is not possible for the Guangdong Provincial Department of Education to approve the Company's application to convert the PRC Schools into Sino-Foreign Joint Venture Private Schools, taking into consideration that (i) no implementing measures or specific guidance were promulgated pursuant to the Sino-Foreign Regulation, including the Qualification Requirement, in Guangdong Province as of the date of this annual report and (ii) the consultation with the Guangdong Provincial Department of Education as outlined above, the following steps taken by the Company are reasonable, appropriate and sufficient to demonstrate compliance with the Qualification Requirement pursuant to paragraph 16C of Listing Decision HKEX-LD43-3.

As of the date of this annual report, the Company has formed a holding company of a new school in the United States, namely International Academy, which was wholly owned by China Kepei (Hong Kong) Limited (中國科培教育(香港)有限公司). The Company has submitted a formal application to California Bureau for Private Postsecondary Education ("BPPE") for the establishment of a new school under the name of International Academy of Southern California in the State of California, the United States in May 2018 and the approval process is expected to be completed within approximately 18 months from the date of the application. International Academy will be responsible for the daily operation and management of the new school to be established and a three-tier management system comprising (i) the board of directors, (ii) the chief executive officer and (iii) the chief academic officer and the chief operating officer will be established. In particular, Ms. Shuye Huan (郇舒葉) ("Ms. Huan") will serve as the chief executive officer of the school. Ms. Huan has approximately 28 years of higher education administration experience in the United States. Ms. Huan worked at Stanford University in the State of California, the United States from February 1990 to February 2017 with positions including assistant director of the SCID (Stanford Center for International Development) China Program and director of SCID Training Programs, where she designed, marketed and guided to completion various academic and training programs. Since 2017, Ms. Huan has been serving as a board member of the board of trustees, mainly responsible for higher education development, at Sofia University in the United States. The mission of the new school is to provide educational services at the bachelor's degree level, with a focus on business administration. As of the date of this annual report, the new school is intended to initially offer bachelor's degrees of science in business administration and has employed four professors, all of whom were awarded a doctorate of philosophy by renowned universities such as Stanford University. In addition, we have entered into a lease agreement for the rent of a premises occupying a total of 5,333 square feet in the city of San Jose, State of California, the United States for the use of the new school. The operation and development of the new school will be funded by the Company's internal resources and the Company has expended approximately US$150,000 in connection with its plan as of the date of this annual report.

As advised by the PRC legal advisors, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed but the Qualification Requirement remains and assuming the new school to be operated by International Academy, i.e. the foreign school or another foreign educational institution established by the Company gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School in the future (provided that the then PRC laws and regulations do not impose new requirements, restrictions, or prohibitions in relation to the establishment of a Sino-Foreign Joint Venture Private School), the Company will be able to operate its schools in the PRC directly through the new school operated by International Academy, i.e. the foreign school or such other educational institution subject to the approval from the competent education authorities.

Furthermore, the Company has undertaken to the Stock Exchange that it will:

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

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

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

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

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

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

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

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

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

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

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

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

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

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Ye Nianqiao and Ms. Shu Liping, who are of Chinese nationality, will indirectly hold approximately 52.5% (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option (as defined in the Prospectus)) of the issued share capital of the Company upon the conversion of the Convertible Bond and completion of the Capitalization Issue and the Listing and will indirectly hold approximately 50.25% of the issued share capital of the Company assuming that the Over-allotment Option is exercised in full; (ii) the Company through Tibet Kepei exercises effective control over the PRC Schools and/or the School Sponsor pursuant to the Structured Contracts and (iii) Mr. Ye Nianqiao and Ms. Shu Liping are of Chinese nationality, the PRC legal advisors are of the view that we can apply for the recognition of the Structured Contracts as domestic investments and it is likely that the Structure Contracts will be considered as legal.

Based on the above, the Company's PRC legal advisors are of the opinion that:

(a) each of the PRC Schools and the School Sponsor was duly incorporated and is validly existing and their respective establishment is valid, effective and complies with the relevant PRC laws and regulations. Each of the Registered Shareholders is a legal person with full civil and legal capacity. Each of the PRC Schools and the School Sponsor has also obtained all material approvals and finished all registration as required by the PRC laws and regulations and has the capacity to carry out business operations in accordance with its licenses and approvals;

(b) the Structured Contracts as a whole and each of the agreements comprising the Structured Contracts are legal, valid and binding on the parties thereto, enforceable under the PRC laws and regulations, except that the Structured Contracts provide that the arbitral body may award remedies over the shares and/or assets of the PRC Schools and/or the School Sponsor, injunctive relief and/or winding-up of the PRC Schools and/or School Sponsor, and that the courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal, while under the PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting the assets of or equity interest in the PRC Schools and/or the School Sponsor in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts such as the courts of Hong Kong and the Cayman Islands may not be recognizable or enforceable in China, and do not, individually or collectively, constitute breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the Structured Contracts do not violate the provisions of the PRC Contract Law including "concealing illegal intentions with a lawful form," the General Principles of the PRC Civil Law and other applicable PRC laws and regulations;

(c) each of the Structured Contracts is not in violation of provisions of the articles of association of the PRC Schools and the School Sponsor and Tibet Kepei;

(d) each of the Structured Contracts is enforceable under the PRC laws and regulations. Entering into and the performance of the Structured Contracts do not require any approval or authorization from the PRC governmental authorities, except that: (i) the pledge of any equity interest in Zhaoqing Kepei in favor of Tibet Kepei is subject to registration requirements with the Administration of Industry and Commerce Department; (ii) the transfer of the school sponsor's interests in the PRC Schools and/or equity interest in the School Sponsor contemplated under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable PRC laws; (iii) the transfer of equity interest in the School Sponsor contemplated under the Structured Contracts is subject to applicable approval and/or registration requirements under the then applicable laws and (iv) any arbitral awards or foreign rulings and/or judgments in relation to the performance of the Structured Contracts are subject to applications to the competent PRC courts for recognition and enforcement;

(e) neither Tibet Kepei nor the Company is obligated to share the losses of the PRC Schools and/or the School Sponsor or provide financial support to the PRC Schools and/or the School Sponsor. Each of the PRC Schools and/or the School Sponsor is solely liable for its own debts and losses with assets and properties owned by itself;

(f) the consummation of the contemplated listing of the Shares on the Stock Exchange does not violate the M&A Rules; and

(g) a private school that does not require reasonable return cannot distribute reasonable returns to its school sponsor. No current national PRC laws or regulations or regulations in Guangdong Province stipulate any proportion and/or amount limit for a reasonable return. Furthermore, in Guangdong Province, whether the school chooses to require reasonable returns or not has no adverse impact on the payment of service fees by the PRC Schools to Tibet Kepei.

For further details of the Structured Contracts, please refer to the section headed "Structured Contracts" in the Prospectus.

G. Risks associated with the Structured Contracts and the actions taken to mitigate the risks

The Group entered into the Structured Agreements through its wholly-owned subsidiary, Tibet Kepei, pursuant to which all economic benefits arising from the business of the PRC Consolidated Affiliated Entities will be transferred to Tibet Kepei to the extent permitted by the PRC laws and regulations by means of services fees payable by the PRC Consolidated Affiliated Entities to Tibet Kepei.

Foreign investment in the education industry in the PRC is extensively regulated and subject to numerous restrictions. The Company has been and are expected to continue to be dependent on the Structured Contracts to operate its education business. If the Structured Contracts that establish the structure for operating the Group's China business are found to be in violation of any existing or future PRC laws, rules, regulations or fail to obtain or maintain any of the required permits or approvals, the relevant PRC regulatory authorities, including the Ministry of Education ("MOE"), would have broad discretion in dealing with such violations, including:

- revoking the business and operating licenses of the PRC subsidiary or consolidated affiliated entities;
- discontinuing or restricting the operations of any related-party transactions among the PRC subsidiary or consolidated affiliated entities;
- imposing additional conditions or requirements with which the Group, the PRC subsidiary or consolidated affiliated entities may not be able to comply;
- requiring the Company to undergo a costly and disruptive restructuring such as forcing us to establish new entities, re-apply for the necessary licenses or relocate its businesses, staff and assets;

- restricting or prohibiting the use of proceeds from public offering or other financing activities to finance the Company's business and operations in China; or

- taking other regulatory or enforcement actions, including imposing fines, which could be harmful to the Company's business.

If any of the above penalties are imposed on the Company, its business, financial condition and results of operations may be materially and adversely affected.

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

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

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

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

(d) the Company and the Directors undertake to provide periodic updates in its annual and interim reports regarding (i) the Qualification Requirement; (ii) the Company's status of compliance with the Draft Foreign Investment Law and its accompanying explanatory notes as stipulated under the section headed "Structured Contracts — Background of the Structured Contracts" of the Prospectus; (iii) the latest development of the Draft Foreign Investment Law and its accompanying explanatory notes as stipulated under the section headed "Structured Contracts — Development in the PRC Legislation on Foreign Investment", and (iv) updates of changes to the Draft Foreign Investment Law that will materially and adversely affect us as and when occur, including the latest relevant regulatory development as well as the Company's plan and progress in acquiring the relevant experience to meet the Qualification Requirement; and

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

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

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

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

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

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

H. Material changes

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.

I. 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 — Termination of the Structured Contracts" of the Prospectus. In the event that the PRC regulatory environment changes and all of the Qualification Requirement, the Foreign Ownership Restriction and the Foreign Control Restriction are removed (and assuming there are no other changes in the relevant PRC laws and regulations), Tibet Kepei will exercise the Equity Call Option in full to unwind the Structured Contracts so that the Company will be able to directly operate the schools without using the Structured Contracts.

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

Confirmation of independent non-executive Directors

The independent non-executive Directors will review the above-mentioned continuing connected transactions (the "Continuing Connected Transactions") on an annual basis to confirm that, during the relevant financial year:

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

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

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

Confirmation of the Company's auditor

The Company was listed on 25 January 2019.

The Company's auditor will carry out procedures annually on the transactions carried out pursuant to the Structured Contracts and will provide a letter to the Directors with a copy to the Stock Exchange, confirming that the transactions have received the approval of the Directors, have been entered into in accordance with the relevant Structured Contracts and that no dividends or other distributions have been made by the PRC Schools and/or the School Sponsor to the holders of its school sponsor's interest which are not otherwise subsequently assigned or transferred to the Group.

Save as disclosed in this annual report, as at the date of this annual report, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions.

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 31 to the consolidated financial statements. The transactions do not fall under "Connected Transactions" or "Continuing Connected Transactions" in accordance with Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

NON-COMPETITION UNDERTAKING

As of 31 December 2018, the Controlling Shareholders (as defined in the Listing Rules) do not have any other interest in any business that may, directly or indirectly, compete with the business of the Group.

Under the Structured Contracts, Mr. Ye Nianqiao has provided certain non-competition deed in favor of the Company (the "Non-competition Deed"). For details of the Non-competition Deed, please refer to the Prospectus.

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

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

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) where the Report of the Board of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to RMB1,585,000.

CORPORATE GOVERNANCE

Details are set out in the Corporate Governance Report on pages 60 to 76 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

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

SIGNIFICANT LEGAL PROCEEDINGS AND COMPLIANCE

For the year ended 31 December 2018, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatening against the Company.

For the year ended 31 December 2018 and for the date of this annual report, to the best knowledge of the Directors, the Group complied with laws and regulations in all significant aspects.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") had reviewed the accounting principles and policies adopted by the Group and the consolidated financial statements prepared in accordance with HKFRSs for the year ended 31 December 2018.

AUDITOR

Ernst & Young was appointed as the auditor for the year ended 31 December 2018. The accompanying consolidated financial statements prepared in accordance with HKFRSs have been audited by Ernst & Young.

The Company has been hiring Ernst & Young since the date of preparation for its listing. Ernst & Young retires and a resolution for its reappointment as auditor of the Company will be proposed at the forthcoming AGM.

POST BALANCE SHEET EVENTS

The material post balance sheet events are disclosed in notes 25 and 36 to the consolidated financial statements.

On behalf of the Board

Ye Nianqiao
Chairman
Hong Kong, 29 March 2019

Corporate Governance Report

The Company's Shares have been listed on the Stock Exchange since 25 January 2019. As the Company was not listed as of 31 December 2018, the CG Code as set out in Appendix 14 of the Listing Rules does not apply to the Company during the Reporting Period, but has applied to the Company since the Listing Date.

CORPORATE GOVERNANCE PRACTICES

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

THE RESPONSIBILITIES OF THE BOARD

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

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

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

Board Composition

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

Name	Position
Ye Nianqiao	Executive Director *(Chairman and chief executive officer)*
Zhang Xiangwei	Executive Director
Zha Donghui	Executive Director
Li Yan	Executive Director
Ye Xun	Executive Director
Wang Chuanwu	Non-executive Director
Xu Ming	Independent Non-executive Director
Deng Feiqi	Independent Non-executive Director
Li Xiaolu	Independent Non-executive Director

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

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

The Company has also complied with Rule 3.10A of the Listing Rules relating to the appointment of independent non-executive Directors representing at least one-third of the Board. As each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules during the period from the Listing Date and up to the date of this annual report, the Company considers all of them to be independent parties.

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

The Board adopted a diversity policy which sets out the objective and provides that all appointments of the members of the Board should be made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective. The Nomination Committee will review and assesses the composition of the Board and make recommendations to the Board on appointment of members of the Board. Meanwhile, the Nomination Committee will consider the benefits of all aspects of diversity, including without limitation, professional experience, skills, knowledge, education background, age, gender, cultural and ethnicity and length of service, in order to maintain an appropriate range and balance of talents, skills, experience and diversity of perspectives on the Board.

The Nomination Committee has reviewed such board diversity policy for the year ended 31 December 2018. During the year ended 31 December 2018, the Company's existing composition of independent non-executive Directors as well as its senior management team are highly diverse in age, educational background and professional experience.

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

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

Induction and Continuous Professional Development

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

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

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

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Ye Nianqiao	A/B/C/D
Zhang Xiangwei	A/B/C/D
Zha Donghui	A/C/D
Li Yan	A/C/D
Ye Xun	A/C/D
Non-executive Director	
Wang Chuanwu	A/C/D
Independent Non-executive Directors	
Xu Ming	A/C/D
Deng Feiqi	A/C/D
Li Xiaolu	A/C/D

Notes:

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

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

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

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

Chairman and Chief Executive Officer

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

Mr. Ye Nianqiao currently serves as the chairman of the Board, executive Director and chief executive officer and general manager of the Company. Throughout the Group's business history, Mr. Ye has been the key leadership figure of the Group who has been primarily involved in the strategic development, overall operational management and major decision making of the Group. Taking into account the continuation of the implementation of the Company's business plans, the Directors consider Mr. Ye is the best candidate for both positions and the present arrangements are beneficial and in the interests of the Company and the Shareholders as a whole.

Appointment and Re-election of Directors

In accordance with the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting.

At every annual general meeting of the Company, one-third of the Directors for the time being (or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

None of the Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

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

Nomination Policy

A director nomination policy (the "Nomination Policy") adopted by the Board aims to enhancing transparency and accountability of the nomination process of Directors and enabling the Company to ensure the Board has a balance of skills and experience and diversity of perspectives appropriate to the requirements of the Company's business.

Under the Nomination Policy, the Nomination Committee is responsible for selecting suitable candidates and giving recommendations to the Board on appointment of Directors. The selection criteria for assessing the suitability of a proposed candidate which shall be taken as reference by the Nomination Committee includes: character and integrity, professional qualifications, skills, knowledge and experience that are relevant to the Company's business and strategy, the potential contribution to the Board from the diversity aspects, and any other factors as the Nomination Committee may deem fit to consider in the best interests of the Company and its Shareholders. These above selection criteria are not exhaustive and conclusive and the Nomination Committee has the discretion to nominate any person as it considers appropriate.

Under the Nomination Policy, upon obtaining the required information from the candidate, the Nomination Committee shall convene a meeting to discuss and consider the recommendation of the candidate to the Board for appointment as a Director. The Nomination Committee shall review whether the candidate is qualified to be appointed, elected or re-elected into the Board under the relevant Listing Rules and the policies of the Company. In particular, the Nomination Committee shall consider the potential contribution a Candidate can bring to the Board in terms of qualification, skills, experience, independence and gender diversity.

Nomination Process of the Appointment of New Director

1. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

2. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship (where applicable).

3. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above and, where appropriate, make recommendation to shareholders in respect of the proposed election of Director at the general meeting.

Board Meetings

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

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

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

During the period from the Listing Date and up to the date of this annual report, one board meeting and none of the general meeting was held and the attendance of each Director at this meeting is set out in the table below:

Directors	Attended/Eligible to attend the Board meeting(s)
Executive Directors	
Ye Nianqiao	1/1
Zhang Xiangwei	1/1
Zha Donghui	1/1
Li Yan	1/1
Ye Xun	1/1
Non-executive Director	
Wang Chuanwu	1/1
Independent Non-executive Directors	
Xu Ming	1/1
Deng Feiqi	1/1
Li Xiaolu	1/1

Model Code for Securities Transactions

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

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

Delegation by the Board

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

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

Corporate Governance Function

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

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

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

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

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

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

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

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, including two independent non-executive Directors namely Dr. Xu Ming (chairman) and Dr. Deng Feiqi and one non-executive Director namely Mr. Wang Chuanwu.

The principal duties of the Audit Committee include the following:

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

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

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

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

As the Shares were only listed on the Main Board of the Stock Exchange from 25 January 2019, no meeting was held by the Audit Committee for the year ended 31 December 2018.

During the period from the Listing Date and up to the date of this annual report, the Audit Committee held one meeting and the attendance of the Audit Committee members at this meeting is set out in the table below:

Name of Directors	Attended/Eligible to attend
Dr. Xu Ming *(chairman)*	1/1
Mr. Wang Chuanwu	1/1
Dr. Deng Feiqi	1/1

During the period from the Listing Date and up to the date of this annual report, the Audit Committee reviewed the annual results and reports for the year ended 31 December 2018, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor. Having reviewed the effectiveness of the external audit process as well as the independence, the Audit Committee is satisfied with this relationship.

The Group's annual audited results for the year ended 31 December 2018 have been reviewed by the Audit Committee on 29 March 2019.

Nomination Committee

The Nomination Committee currently comprises three members, including one executive Director namely Mr. Ye Nianqiao (chairman) and two independent non-executive Directors namely Dr. Deng Feiqi and Dr. Li Xiaolu.

The principal duties of the Nomination Committee include the following:

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

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

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

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

5. perform tasks assigned by the Board from time to time.

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

The Company recognizes and embraces the benefits of having a diverse Board to enhance its performance and has adopted a board diversity policy aiming to set out the approach to achieve diversity on the Board. The implementation of the policy is monitored by the Nomination Committee. In designing the Board's composition, board diversity has been considered from a number of measurable objectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Nomination Committee will continue to monitor the implementation of the board diversity policy and will review the board diversity policy periodically to ensure its continued effectiveness.

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

As the Shares were only listed on the Main Board of the Stock Exchange from 25 January 2019, no meeting was held by the Nomination Committee for the year ended 31 December 2018.

During the period from the Listing Date and up to the date of this annual report, the Nomination Committee held one meeting to review the nomination procedures and the composition and diversity of the Board and was satisfied with the current procedures and composition.

The attendance of each Nomination Committee members at these meetings is set out in the table below:

Name of Directors	Attended/Eligible to attend
Mr. Ye Nianqiao *(chairman)*	1/1
Dr. Deng Feiqi	1/1
Dr. Li Xiaolu	1/1

Remuneration Committee

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Dr. Deng Feiqi (chairman) and Dr. Li Xiaolu, and one executive Director namely Mr. Zha Donghui.

The principal duties of the Remuneration Committee include the following:

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

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

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

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

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

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

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

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

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

As the Shares were only listed on the Main Board of the Stock Exchange from 25 January 2019, no meeting was held by the Remuneration Committee for the year ended 31 December 2018.

During the period from the Listing Date and up to the date of this annual report, the Remuneration Committee held one meeting in order to reviewed and discussed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters of the Company. The Remuneration Committee ensured that no individual or any of his associates was involved in determining his own remuneration. It also ensured that remuneration awards were determined by reference to the performance of the individual and the Company and were aligned to the market practice and conditions, the Company's goals and strategies. No changes on the policy were recommended by the Remuneration Committee.

The attendance of each Remuneration Committee members at these meetings is set out in the table below:

Name of Directors	Attended/Eligible to attend
Dr. Deng Feiqi *(chairman)*	1/1
Mr. Zha Donghui	1/1
Dr. Li Xiaolu	1/1

Remuneration of Directors and Senior Management

Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 20 to 24 of this annual report, for the year ended 31 December 2018 are set out below:

Remuneration band	Number of individual
RMB1 million to RMB2 million	2
RMB0 to RMB1 million	8

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2018 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

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

The statement by the auditor regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 77 to 83 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Group's internal audit department plays a major role in monitoring the internal governance of the Company. The major tasks of the internal audit department are reviewing the internal control of the Company and conducting comprehensive audits of all branches and subsidiaries of the Company on a regular basis.

Under the Company's risk management and internal control structure, the management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements.

The main features of risk management and internal control structure of the Company are as follows:

- heads of major operation units or departments manage risks through identification and mitigating risks identified in accordance with the internal guidelines approved by the Board and the Audit Committee;

- the management ensures appropriate actions are taken on major risks affecting the Group's businesses and operations; and

- internal auditors provide independent assurance to the Board, the Audit Committee and the management concerning the effectiveness of risk management and internal control systems.

During the Reporting Period, major works performed by the management in relation to risk management and internal control include the following:

- each major operation unit or department was responsible for daily risk management activities, including identifying major risks that may impact on the Group's performance; assessing and evaluating the identified risks according to their likely impacts and the likelihood of occurrence; formulating and implementing measures, controls and response plans to manage and mitigate such risks;

- the management, together with the controller's department, monitored and reviewed the risk management and internal control systems on an ongoing basis and reported to the Audit Committee regarding the status of the systems;

- the management periodically followed-up and reviewed the implementation of the measures, controls and response plans to major risks identified in order to make sure that sufficient attention, monitor and responses were paid to all major risks identified;

- the management reviewed the risk management and internal control systems periodically to identify process and control deficiencies, and designed and implemented corrective actions to address such deficiencies; and

- the management ensured appropriate procedures and measures such as safeguarding assets against unauthorized use or disposition, controlling capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publications, etc. are in place.

The internal audit function of the Company monitored the internal governance of the Company and provided independent assurances as to the adequacy and effectiveness of the Company's risk management and internal control systems. The senior executive in charge of the internal audit function reported directly to the Audit Committee. The internal audit reports on control effectiveness were submitted to the Audit Committee in line with agreed audit plan approved by the Board. All Directors were informed of the findings of internal audit assignments. During the Reporting Period, the internal audit function carried out an analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company through, amongst others, examination of risk-related documentation prepared by operation units and the management and conducting interviews with employees at all levels. The senior executives in charge of the internal audit function attended meetings of the Audit Committee to explain the internal audit findings and responded to queries from members of the Audit Committee.

The Company has maintained internal guidelines for ensuring that inside information is disseminated to the public in an equal and timely manner in accordance with the applicable laws and regulations. Senior executives of the investor's relation, corporate affairs and financial control functions of the Group are delegated with responsibilities to control and monitor the proper procedures to be observed on the disclosure of inside information. Access to inside information is at all times confined to relevant senior executives and confined on "need-to-know" basis. Relevant personnel and other professional parties involved are reminded to preserve confidentiality of the inside information until it is publicly disclosed. Other procedures such as pre-clearance on dealing in Company's securities by the Directors and designated members of the management, notification of regular blackout period and securities dealing restrictions to Directors and employees, and identification of project by code name have also been implemented by the Company to guard against possible mishandling of inside information within the Group.

The Company has adopted arrangement to facilitate employees and other stakeholders to raise concerns, in confidence, about possible improprieties in financial reporting, internal control or other matters. The Audit Committee reviewed such arrangement regularly and ensured that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the Reporting Period, the Audit Committee reviewed the effectiveness of the risk management and internal control systems of the Company. The annual review included works such as (i) review of reports submitted by heads of operation units or departments and the management regarding the implementation of the risk management and internal control systems; (ii) periodic discussions with the management and senior executives regarding the effectiveness of the risk management and internal control systems and the works of the internal audit function. Such discussions include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions; (iii) evaluation on the scope and quality of management's ongoing monitoring of the risks management and internal control systems; (iv) review of the effectiveness of the internal audit function to ensure coordination within the Group and between the Company's internal and external auditors and to ensure the internal audit function is adequately resourced and has appropriate standing within the Group; and (v) made recommendations to the Board and the management on the scope and quality of the management's ongoing monitoring of the risk management and internal control systems.

The Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group and considered such systems to be effective and adequate. Such systems, however, 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.

AUDITOR'S REMUNERATION

Audit fees of the Group for the Reporting Period payable to the external auditor were approximately RMB1.2 million. And the Group incurred approximately RMB4.1 million in 2018 for non-audit services related to the professional services rendered as the reporting accountants in relation to the Listing of the Company's shares on the Main Board of the Stock Exchange and other services.

JOINT COMPANY SECRETARIES

Ms. Li Yan ("Ms. Li"), being one of the joint company secretaries of the Company, is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed.

In order to uphold good corporate governance and ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also engages Ms. Leung Suet Wing ("Ms. Leung"), an assistant manager of TMF Hong Kong Limited (a company secretarial services provider), as one of the joint company secretaries of the Company to assist Ms. Li to discharge her duties as a company secretary of the Company. Ms. Li is the primary contact person of the Company.

Considering the Shares were only listed on the Main Board of the Stock Exchange from 25 January 2019, Ms. Li will comply with the requirement under Rule 3.29 of the Listing Rules for the year ending 31 December 2019. For the year ended 31 December 2018, Ms. Leung has undertaken not less than 15 hours of relevant professional training respectively in compliance with rule 3.29 of the Listing Rules.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

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

SHAREHOLDERS' RIGHTS

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

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

CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

Pursuant to the Articles of Association, a general meetings shall be convened by the Company on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. General meetings may also be convened on the written requisition of any one member which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the headquarters of the Company at Qifu Road, Gaoyao District, Zhaoqing City, Guangdong Province, the PRC (email address: ir@kepeieducation.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum and articles of association of the Company by special resolution passed on 10 January 2019 and effective on 25 January 2019. There was no change in the memorandum and articles of association of the Company during the period of the Listing Date to the date of this annual report.

Independent Auditor's Report

Ernst & Young
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To the shareholders of China Kepei Education Group Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of China Kepei Education Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 84 to 166, 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 Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional 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
Income tax	
As set out in note 10 to the financial statements, according to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. No corporate income tax was provided on the income from the Group's private schools, Guangdong Polytechnic College which have elected to be private school do not require reasonable returns and Zhaoqing Science and Technology Secondary Vocational School which have elected to be private school require reasonable returns, in the People's Republic of China (the "PRC Schools"). In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, the PRC Schools did not pay corporate income tax for the income from formal educational services and has enjoyed the preferential tax treatment since their establishment. As a result, no income tax expense was recognised for the income from the provision of educational services during the year.	The audit procedures included the following: • discussed with the management to evaluate their interpretation of the tax laws and their assessment of the tax obligations of the PRC Schools for the year; • evaluated the management's assessment on the application of preferential tax or applicable tax rate to the respective schools; • discussed with the Group's PRC external legal advisors to understand their view with respect to the interpretation of the existing applicable laws which would have impact on the applicable tax on the respective schools; • obtained the Group's PRC external legal advisor's comments on the tax obligations applied onto the PRC Schools, in particular, whether or not the PRC Schools were required by their respective tax authorities to pay income tax by the end of year 2018 and whether the PRC Schools which enjoyed such preferential tax treatments were in compliance with applicable laws and regulations in China; • examined the historical tax filing returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, where appropriate;

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
There were significant judgements involved in management's analysis and assessment, such as the assessment on the possible outcome of the tax provision based on historical experiences and interpretation of the relevant tax laws and regulations in respect of the preferential tax treatment enjoyed by the PRC Schools. Relevant disclosures are included in notes 3 and 10 to the financial statements.	• assessed any new policies, regulations or rules that have been introduced by the authorities, which might have an impact on the tax position taken by the Group up to the date of this report; • involved our internal tax specialist to assist us in assessing the uncertainties arising from the preferential tax treatment enjoyed by the PRC Schools; and • evaluated the adequacy of the Group's disclosures regarding income tax.

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
Revenue mainly comprised the tuition fees and boarding fees from students, and these fees are collected through the official payment channels at the beginning of each academic year. Students' identity and applicable program are registered with the relevant education authorities. Tuition and boarding fees are calculated by reference to number of students and the annual fee of applicable program for the academic year, and is recognised proportionately over the relevant period of the applicable program. For the portion of tuition and boarding fees received from students but not earned is recorded as contract liabilities. Given the significant amount and volume of transactions and the risk of overstatement of revenue, we considered it a key audit matter. The accounting policy for revenue recognition and disclosures of the amount of revenue are included in notes 2.4 and 5 to the financial statements.	The audit procedures included the following: • understood the basis of revenue recognition and the overall process of transactions relating to revenue and evaluated the effectiveness of the controls designed and applied by the Group over the collection of tuition and boarding fees and the controls over the calculation of the contract liabilities and corresponding amount of revenue; • performed analytical review to evaluate the revenue recognised regarding the tuition fees and boarding fees; • on a sample basis, examined the relevant supporting documentation of tuition and boarding fees including students' register forms, payment records, official student records registered with the relevant PRC education authorities, and the payment remittance receipts of tuition and boarding fees; • recalculated the amount of revenue and contract liabilities 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 fiscal year end to the records on the China Credentials Verification website.

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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors 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.

- 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.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 M. L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss and other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**575,451**	455,382
Cost of sales		**(185,936)**	(149,153)
Gross profit		**389,515**	306,229
Other income and gains	5	**57,988**	8,682
Selling and distribution expenses		**(14,540)**	(8,524)
Administrative expenses		**(77,462)**	(45,999)
Non-monetary employee benefits provided by the controlling shareholder		**—**	(12,129)
Other expenses		**(4,603)**	(988)
Finance costs	7	**(8,975)**	(9,604)
Share of profits and losses of joint ventures		**33**	(6,791)
PROFIT BEFORE TAX	6	**341,956**	230,876
Income tax expense	10	**—**	—
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**341,956**	230,876
Attributable to:			
Owners of the parent		**341,956**	230,876
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic			
— For profit for the year		**RMB0.23**	RMB0.76
Diluted			
— For profit for the year		**RMB0.22**	RMB0.76

Consolidated Statement of Financial Position

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,274,380**	1,001,518
Prepaid land lease payments	14	**198,104**	154,922
Investment in a joint venture	15	**1,948**	1,915
Prepayments for non-current assets		**128,996**	5,056
Total non-current assets		**1,603,428**	1,163,411
CURRENT ASSETS			
Trade receivables	16	**22,650**	18,128
Prepayments, deposits and other receivables	17	**25,144**	56,375
Amount due from a director	31	**—**	178,110
Amounts due from related parties	31	**—**	144,566
Short-term investments measured at fair value through profit or loss	18	**246,106**	500
Cash and cash equivalents	19	**432,921**	369,058
Non-current assets classified as held for distribution on demerger	20	**—**	78,000
Total current assets		**726,821**	844,737
CURRENT LIABILITIES			
Contract liabilities	5	**334,564**	258,395
Other payables and accruals	21	**115,643**	220,159
Interest-bearing bank loans	22	**10,000**	30,000
Convertible redeemable bond	23	**332,700**	—
Amount due to a related party	31	**—**	400
Deferred income	24	**808**	808
Total current liabilities		**793,715**	509,762
NET CURRENT (LIABILITIES)/ASSETS		**(66,894)**	334,975
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,536,534**	1,498,386

Consolidated Statement of Financial Position (continued)

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,536,534**	1,498,386
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	22	**100,000**	325,000
Deferred income	24	**3,969**	4,777
Total non-current liabilities		**103,969**	329,777
Net assets		**1,432,565**	1,168,609
EQUITY			
Equity attributable to owners of the parent			
Share capital	25	**–**	–
Reserves	26	**1,432,565**	1,168,609
Total equity		**1,432,565**	1,168,609

Ye Nianqiao
Director

Li Yan
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the parent				
	Share capital RMB'000 Note 25	Capital reserve RMB'000 Note 26(a)	Statutory and other surplus reserves RMB'000 Note 26(b)	Retained profits RMB'000	Total RMB'000
At 1 January 2017	—	152,000	236,301	609,303	997,604
Profit for the year	—	—	—	230,876	230,876
Total comprehensive income for the year	—	—	—	230,876	230,876
Non-monetary employee benefits provided by the controlling shareholder (note 31(c))	—	12,129	—	—	12,129
Demerger of non-Listing Business (note 26 (a))	—	(72,000)	—	—	(72,000)
Transfer from retained profits	—	—	62,449	(62,449)	—
At 31 December 2017	—	92,129*	298,750*	777,730*	1,168,609

	Attributable to owners of the parent				
	Share capital RMB'000 Note 25	**Capital reserve RMB'000 Note 26(a)**	**Statutory and other surplus reserves RMB'000 Note 26(b)**	**Retained profits RMB'000**	**Total RMB'000**
At 1 January 2018	**—**	**92,129**	**298,750**	**777,730**	**1,168,609**
Profit for the year	**—**	**—**	**—**	**341,956**	**341,956**
Total comprehensive income for the year	**—**	**—**	**—**	**341,956**	**341,956**
Demerger of non-Listing Business (note 26 (a))	**—**	**(78,000)**	**—**	**—**	**(78,000)**
Transfer from retained profits	**—**	**—**	**88,505**	**(88,505)**	**—**
At 31 December 2018	**—**	**14,129***	**387,255***	**1,031,181***	**1,432,565**

* These reserve accounts comprise the consolidated reserves of RMB1,432,565,000 (2017: RMB1,168,609,000) in the consolidated statement of financial position.

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:		341,956	230,876
Adjustments for:			
Finance costs	7	8,975	9,604
Exchange gain, net	5	(26,447)	—
Interest expense on bank loans	5	—	7,855
Share of profits and losses of joint ventures		(33)	6,791
Interest income on loans to a related party	5	—	(7,855)
Bank interest income	5	(4,565)	(1,020)
Fair value adjustment of short-term investments measured at fair value through profit or loss	5	(1,389)	—
Government grants related to assets released	5	(808)	(731)
Loss on disposal of items of property, plant and equipment	6	5	934
Non-monetary employee benefits provided by the controlling shareholder	6	—	12,129
Fair value adjustment of the convertible redeemable bond	6	2,700	—
Depreciation	13	57,316	38,753
Recognition of prepaid land lease payments	14	4,257	3,582
Provision for expected credit losses of trade receivables	16	1,287	1,253
		383,254	302,171
Increase in trade receivables		(5,809)	(4,007)
Decrease in prepayments, deposits and other receivables		1,177	39,713
Increase in other payables and accruals		24,668	15,685
Increase in contract liabilities		76,169	44,962
Decrease in an amount due to a related party		(400)	(838)
Cash generated from operations		479,059	397,686
Bank interest received	5	4,565	810
Net cash flows from operating activities		483,624	398,496

	Notes	2018 RMB'000	2017 RMB'000
Net cash flows from operating activities		**483,624**	398,496
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**–**	7,855
Increase in prepayments for non-current assets		**(123,940)**	(384)
Decrease in an amount due from a director		**178,110**	28,956
Decrease in an amount due from a joint venture		**–**	43,000
Decrease in amounts due from related parties		**144,566**	77,737
Addition to prepaid land lease payments	14	**(48,451)**	—
Purchases of items of property, plant and equipment		**(420,214)**	(358,325)
Proceeds from disposal of items of property, plant and equipment		**53**	493
Purchase of short-term investments measured at fair value through profit or loss		**(244,717)**	(500)
Proceeds from disposal of short-term investments measured at fair value through profit or loss		**500**	30,210
Net cash flows used in investing activities		**(514,093)**	(170,958)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**271,121**	202,700
Repayments of bank loans		**(516,121)**	(130,000)
Interest paid		**(17,115)**	(17,459)
Proceeds from issue of the convertible redeemable bond	23	**330,000**	—
Net cash flows from financing activities		**67,885**	55,241
NET INCREASE IN CASH AND CASH EQUIVALENTS		**37,416**	282,779
Cash and cash equivalents at beginning of year		**369,058**	86,279
Effect of foreign exchange rate changes, net		**26,447**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR	19	**432,921**	369,058
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**432,921**	369,058

1 Corporate and group information

China Kepei Education Group Limited (the "Company") was incorporated in the Cayman Islands on 24 August 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of the registered office of the Company is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 January 2019.

The principal activity of the Company is investment holding. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in providing private education services (collectively the "Listing Business") in the People's Republic of China (the "PRC").

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

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Huanan Education Group Limited	BVI	US$50,000	100%	—	Investment holding
China Kepei Education (Hong Kong) Limited[&]	Hong Kong	HK$1	—	100%	Investment holding
International Academy of Southern California[&]	Milpitas, California, USA	HK$10,000	—	100%	Provision of higher education service
Zhaoqing Kepei Information Technology Company Limited ("Zhaoqing Kepei Information Technology")[*^&]	PRC/ Mainland China	RMB1,000,000	—	100%	Provision of education management and services
Tibet Kepei Information Technology Company Limited ("Tibet Kepei")[*^&]	PRC/ Mainland China	RMB1,000,000	—	100%	Provision of education management and services

1 Corporate and group information (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Zhaoqing Kepei Education Investment Development Company Limited ("Zhaoqing Kepei")*#&	PRC/ Mainland China	RMB25,000,000	—	100%	Investment holding
Guangdong Polytechnic College*#&	PRC/ Mainland China	RMB90,000,000	—	100%	Provision of undergraduate and junior college education service
Zhaoqing Science and Technology Secondary Vocational School*#&	PRC/ Mainland China	—	—	100%	Provision of secondary vocational education service

* The English names of these companies represent the best effort made by management of the Company to directly translate the Chinese names as they do not register any official English name.

^ Zhaoqing Kepei Information Technology and Tibet Kepei are registered as wholly-foreign-owned enterprise under PRC law.

These entities are owned through contractual arrangements.

& The statutory financial statements of these entities are not audited by Ernst & Yong, Hong Kong or another member firm of the Ernst & Young global network.

2.1 Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain short-term investments and convertible redeemable bond which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Basis of preparation (continued)

The Group recorded net current liabilities of RMB66,894,000 as at 31 December 2018. In view of the net current liabilities position, the Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash inflow from operations, the Directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. To mitigate any liquidity issues that might be faced by the Group, the Group has obtained adequate banking facilities from reputable financial institutions to meet its obligations as and when they fall due. As at 31 December 2018, the Group had unutilised banking facilities of RMB128,879,000.

Accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

None of the above new and revised HKFRSs has had a significant financial effect on these financial statements.

2.3 Issued but not yet effective HKFRSs

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 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 (tentatively decided to defer one more year to 1 January 2022)

4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

Amendments to HKFRS 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.

2.3 Issued but not yet effective HKFRSs (continued)

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 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 HKAS 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 HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB5,592,000 and lease liabilities of RMB5,682,000 will be recognised at 1 January 2019.

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

2.3 Issued but not yet effective HKFRSs (continued)

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23 addresses the accounting for in income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 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. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 Summary of significant accounting policies

Investments in joint ventures

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

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 Summary of significant accounting policies (continued)

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

When an investment in a joint venture is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

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

2.4 Summary of significant accounting policies (continued)

Fair value measurement (continued)

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

An assessment is made 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.

2.4 Summary of significant accounting policies (continued)

Related parties

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

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

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

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group; 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.

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment and depreciation

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

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

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

Property and buildings	2.4%
Electronic devices	19.4%
Motor vehicles	19.4%
Furniture and fixtures	9.7%~19.4%

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

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

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

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 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 and other comprehensive income on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, 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 (continued)

Subsequent measurement

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

(a) 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 rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

(b) Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- 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.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

2.4 Summary of significant accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

(c) Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss and other comprehensive income when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

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

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

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

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

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

General approach

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

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

General approach (continued)

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

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

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

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

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

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

Simplified approach

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

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.

2.4 Summary of significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include other payables, loans and borrowings including bank loans, an amount due to a related party and the convertible redeemable bond.

Subsequent measurement

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

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

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

2.4 Summary of significant accounting policies (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

(b) Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the EIR 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 EIR 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 EIR. The EIR amortisation is included in finance costs in the statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Convertible redeemable bond

The convertible redeemable bond with embedded derivatives whose economic risks and characteristics are not closely related to those of the host contract (the liability component) as a whole are designated as financial liabilities at fair value through profit or loss on initial recognition.

The Group designates the convertible redeemable bond as financial liabilities at fair value through profit or loss. It is initially recognised at fair value. Any directly attributable transaction costs are recognised in profit or loss.

Subsequent to initial recognition, the convertible redeemable bond is carried at fair value with changes in fair value recognised in profit or loss. The convertible redeemable bond is classified as a current liability because the bond holder can demand the Company to early redeem the bond from 1 May 2018 or 1 November 2018 in the case of certain events (note 23).

2.4 Summary of significant accounting policies (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, 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, including term deposits, and assets similar in nature to cash, 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 the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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.

2.4 Summary of significant accounting policies (continued)

Income tax (continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

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

2.4 Summary of significant accounting policies (continued)

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised to depict the transfer of promised services to customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

Specifically, the Group uses a 5-step approach to revenue recognition:

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

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to customers. If control of the services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services.

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

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

Other education service fees from the provision of other education services to students are collected in advance on a lump sum basis. Revenue is recognised proportionately over the periods of the applicable program.

2.4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Other income

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

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 assets.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

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

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. No forfeited contributions may be used by the employer to reduce the existing level of contribution.

2.4 Summary of significant accounting policies (continued)

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional 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 at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

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

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

2.4 Summary of significant accounting policies (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than the 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 and other comprehensive income 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 profit or loss.

3 Significant accounting judgements and estimates

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

Judgements

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

Contractual arrangements

Guangdong Polytechnic College and Zhaoqing Science and Technology Secondary Vocational School (the "PRC Schools") are mainly engaged in the provision of education services, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" that foreign investors are prohibited to invest.

The Group exercises control over the PRC Schools and enjoys all economic benefits of the PRC Schools through a series of contractual arrangements.

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

3 Significant accounting judgements and estimates (continued)

Judgements (continued)

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 and such changes to tax liabilities will impact the tax expense in the period in which 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.

Provision for expected credit losses of trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 16 to the financial statements.

3 Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

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

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

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

Valuation of the convertible redeemable bond

The convertible redeemable bond issued by the Company is not traded in an active market and the respective fair value is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted the scenario analysis method to determine the fair value of the convertible redeemable bond. The valuation requires the Group to make estimates about the discount rate, probability of scenarios, risk-free interest rate, discount for lack of marketability and volatility, etc. and hence it is subject to uncertainty. Further details are disclosed in notes 23 and 34 to the financial statements.

Fair value measurement of financial assets at fair value through profit or loss

Certain financial assets have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, credit risk, volatility and discount rates, and hence it is subject to uncertainty. The fair value of such financial assets at 31 December 2018 was RMB246,106,000 (2017: RMB500,000). Further details are included in note 18 to the financial statements.

4 Operating segment information

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

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

Geographical information

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

Information about major customers

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

5 Revenue, other income and gains

An analysis of revenue, other income and gains is as follows:

	2018 RMB'000	2017 RMB'000
Revenue		
Revenue from contracts with customers		
Tuition fees	521,114	413,423
Boarding fees	44,191	36,479
Other education service fees*	10,146	5,480
	575,451	455,382
Other income and gains		
Interest income on loans to a related party**	—	7,855
Interest expense on bank loans**	—	(7,855)
Bank interest income	4,565	1,020
Rental income	16,830	4,584
Government grants		
Related to assets	808	731
Related to income	7,949	2,347
Exchange gain, net	26,447	—
Fair value adjustment of short-term investments measured at fair value through profit or loss	1,389	—
	57,988	8,682

* During the year, other education service fees mainly represented income received from the provision of other education services including training service to the students, which was amortised over the training periods of the services rendered.

** During the year 2017, pursuant to an agreement entered into between the Group and Jiangxi Kepei Investment Company Limited ("Jiangxi Kepei"), Jiangxi Kepei would reimburse all the interest expenses incurred by the Group in respect of certain bank loans (Note 31). The transaction has been terminated since 1 January 2018 and no relevant interest income or interest expense was recorded during the year.

5 Revenue, other income and gains (continued)

Contract liabilities

The Group has recognised the following revenue-related contract liabilities, which represented the unsatisfied performance obligation as at 31 December 2018 and will be expected to be recognised within one year:

	2018 RMB'000	2017 RMB'000
Contract liabilities related to tuition fees	**306,795**	236,985
Contract liabilities related to boarding fees	**27,769**	21,410
	334,564	258,395

The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. The performance obligation is satisfied proportionately over the relevant period of the applicable program. The students are entitled to refund of the payment in relation to the proportionate service not yet provided.

Significant changes in the contract liability balances during the year are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	**258,395**	213,433
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year	**(258,395)**	(213,433)
Increases due to cash received, excluding amounts recognised as revenue during the year	**334,564**	258,395
At the end of the year	**334,564**	258,395

5 Revenue, other income and gains (continued)

Contract liabilities (continued)

(1) Revenue recognised in relation to contract liabilities

The following table shows the amounts of revenue recognised in the current year that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000	2017 RMB'000
Revenue recognised that was included in the balance of contract liabilities at the beginning of the year		
Tuition fees	236,985	195,138
Boarding fees	21,410	18,295
	258,395	213,433

(2) Unsatisfied performance obligations

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	2018 RMB'000	2017 RMB'000
Expected to be recognised within one year		
Tuition fees	306,795	236,985
Boarding fees	27,769	21,410
	334,564	258,395

There were no contract assets at the end of the reporting period recognised in the consolidated statement of financial position.

6 Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2018 RMB'000	2017 RMB'000
Employee benefit expense (excluding directors' and chief executive's remuneration (Note 8)):			
Wages and salaries		**84,902**	64,582
Pension scheme contributions (defined contribution scheme)		**10,912**	9,337
Non-monetary employee benefits provided by the controlling shareholder	31(c)	**—**	12,129
Depreciation	13	**57,316**	38,753
Recognition of prepaid land lease payments	14	**4,257**	3,582
Provision for expected credit losses of trade receivables*	16	**1,287**	1,253
Loss on disposal of items of property, plant and equipment		**5**	934
Donation expenses		**1,585**	54
Auditor's remuneration		**1,200**	107
Listing expense*		**27,203**	9,558
Exchange gain, net	5	**(26,447)**	—
Fair value adjustment of the convertible redeemable bond**		**2,700**	—

* The provision for expected credit losses of trade receivables and listing expense are included in administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

** The fair value adjustment of the convertible redeemable bond is included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

7 Finance costs

	2018 RMB'000	2017 RMB'000
Interest on bank loans	**17,115**	9,604
Interest on the convertible redeemable bond	**3,300**	—
	20,415	9,604
Less: Interest capitalised	**(11,440)**	—
	8,975	9,604

8 Directors' and chief executive's remuneration

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

	2018 RMB'000	2017 RMB'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	3,604	1,355
Pension scheme contributions	130	24
	3,734	1,379
	3,734	1,379

There were no fees and other emoluments payable to the independent non-executive directors during the year (2017: Nil).

2018

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Ye Nianqiao	–	1,269	34	1,303
Mr. Zhang Xiangwei	–	1,055	–	1,055
Mr. Ye Xun	–	200	28	228
Mr. Zha Donghui	–	360	34	394
Ms. Li Yan	–	352	34	386
	–	3,236	130	3,366
Non-executive director:				
Mr. Wang Chuanwu	–	368	–	368
	–	3,604	130	3,734

8 Directors' and chief executive's remuneration (continued)

2017

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Ye Nianqiao	—	298	6	304
Mr. Ye Nianjiu	—	248	6	254
Mr. Ye Xun	—	126	1	127
Mr. Zha Donghui	—	261	6	267
Ms. Li Yan	—	151	5	156
	—	1,084	24	1,108
Non-executive director:				
Mr. Wang Chuanwu	—	271	—	271
	—	1,355	24	1,379

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

9 Five highest paid employees

The five highest paid employees during the year included two directors including the chief executive (2017: three directors including the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2017: two) highest paid employees who are neither a director nor chief executive of the Company is as follows:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**1,329**	536
Pension scheme contributions	**101**	—
	1,430	536

9 Five highest paid employees (continued)

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

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**3**	2

During the year, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10 Income tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

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.

Huanan Education Group Limited, the Company's directly held subsidiary, was incorporated in the British Virgin Islands as an exempted company with limited liability under the BVI Companies Act and accordingly is not subject to income tax.

China Kepei Education (Hong Kong) Limited, a subsidiary incorporated in Hong Kong, is subject to income tax at the rate of 16.5%. No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

According to the Implementation Rules, private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatments. Private schools of which the sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. As a result, private schools providing academic qualification education are eligible to enjoy the income tax exemption treatment if the sponsors of such schools do not require reasonable returns.

The sponsor of Guangdong Polytechnic College does not require reasonable returns and therefore Guangdong Polytechnic College has enjoyed the corporate income tax exemption treatment since its establishment and the local tax authorities have agreed to allow Guangdong Polytechnic College to apply the corporate income tax exemption treatment since its establishment based on a confirmation obtained from the local tax authorities.

10 Income tax (continued)

The sponsor of Zhaoqing Science and Technology Secondary Vocational School requires reasonable returns. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year, no separate policies, regulations or rules have been introduced by the authorities in this regard. In accordance with the historical tax returns filed with the relevant tax authorities and the confirmation obtained therefrom, Zhaoqing Science and Technology Secondary Vocational School has enjoyed the preferential tax treatments since its establishment.

As a result, no income tax expense was recognised for the PRC Schools during the year.

Pursuant to the PRC Corporate Income Tax Law and the respective regulations, the Group's non-school subsidiaries which operate in Mainland China are generally subject to Corporate Income Tax ("CIT") at a rate of 25% on the taxable income except for Tibet Kepei, which is subject to a preferential CIT rate of 15%.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2018 RMB'000	2017 RMB'000
Current tax charge for the year	—	—

A reconciliation of the tax expense applicable to profit before tax at the statutory rate 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, and a reconciliation of the statutory tax rates to the effective tax rate, are as follows:

	2018		2017	
	RMB'000	%	RMB'000	%
Profit before tax	341,956		230,876	
Tax at the statutory tax rate	85,489	25.0	57,719	25.0
Lower tax rates on losses arising elsewhere	1,404	0.4	1,138	0.5
Tax losses not recognised	1,612	0.5	1,864	0.8
Income not subject to tax	(88,497)	(25.9)	(62,419)	(27.0)
Profits and losses attributable to joint ventures	(8)	—	1,698	0.7
Tax charge at the Group's effective rate	—	—	—	—

10 Income tax (continued)

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.

As 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 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. As at 31 December 2018, the aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,066,658,000 (2017: RMB804,534,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

As at 31 December 2018, the Group had tax losses arising in Mainland China of RMB20,811,000 (2017: RMB14,365,000), 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

A final dividend of HK$0.10 per share in respect of the year ended 31 December 2018 has been proposed by the board of directors and is subject to approval by the shareholders at the forthcoming annual general meeting of the Company (2017: Nil).

12 Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB341,956,000 (2017: RMB230,876,000), and the weighted average number of ordinary shares of 1,500,000,000 (2017: 304,931,507) in issue during the year, as adjusted to reflect the rights issue during the year.

12 Earnings per share attributable to ordinary equity holders of the parent (continued)

As of 31 December 2018, the Company had 1,000 ordinary shares (2017: 1,000 ordinary shares) in issue. On 10 January 2019, the authorised share capital of the Company was subdivided from US$50,000 divided into 5,000,000 shares of US$0.01 each to US$50,000 divided into 5,000,000,000 shares of US$0.00001 each. Therefore, the number of ordinary shares in issue became 1,000,000 (the "Share Split"). On 25 January 2019, the Company was listed on the Main Board of the Stock Exchange (the "Listing") by way of issuing 353,334,000 new ordinary shares and capitalisation issue of 1,499,000,000 ordinary shares (the "Capitalisation Issue"). (note 25)

The weighted average number of ordinary shares used to calculate the basic earnings per share amounts for the years ended 31 December 2018 and 2017 was based on 1 ordinary share of the Company issued upon incorporation on 24 August 2017, 999 ordinary shares of the Company issued in the year ended 31 December 2017 (2018: Nil), 999,000 ordinary shares of the Company issued under the Share Split and 1,499,000,000 ordinary shares of the Company issued under the Capitalisation Issue occurred after the reporting period (note 25), as if these additional shares issued under the Share Split and Capitalisation Issue had been completed throughout the years ended 31 December 2018 and 2017.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the fair value change and interest on the convertible redeemable bond, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

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 parent, used in the basic earnings per share calculation	**341,956**	230,876
Add: Interest on the convertible redeemable bond	**3,300**	—
Add: Fair value loss of the convertible redeemable bond	**2,700**	—
Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation	**347,956**	230,876

12 Earnings per share attributable to ordinary equity holders of the parent (continued)

	Number of shares 2018	2017
Shares		
Number of issued shares on 1 January	1,000	—
Effect of shares issued upon incorporation	—	1
Effect of share split on 24 October 2017	—	35
Effect of shares issued on 25 October 2017	—	168
Effect of share split on 10 January 2019	999,000	203,084
Effect of Capitalisation Issue on 10 January 2019	1,499,000,000	304,728,219
Weighted average number of ordinary shares in issue during the year for the purpose of the basic earnings per share calculation	1,500,000,000	304,931,507
Effect of dilution — weighted average number of ordinary shares		
The convertible redeemable bond	80,003,942	—
	1,580,003,942	304,931,507
Earnings per share attributable to ordinary equity holders of the parent		
Basic	RMB0.23	RMB0.76
Diluted	RMB0.22	RMB0.76

13 Property, plant and equipment

	Property and buildings RMB'000	Electronic devices RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	934,487	156,581	13,260	76,504	27,566	1,208,398
Accumulated depreciation	(81,858)	(73,645)	(7,902)	(43,475)	–	(206,880)
Net carrying amount	852,629	82,936	5,358	33,029	27,566	1,001,518
At 1 January 2018, net of accumulated depreciation	852,629	82,936	5,358	33,029	27,566	1,001,518
Additions	892	24,463	64	29,763	275,054	330,236
Disposals	–	(58)	–	–	–	(58)
Transfers	274,784	–	–	–	(274,784)	–
Depreciation provided during the year (note 6)	(27,924)	(18,412)	(1,754)	(9,226)	–	(57,316)
At 31 December 2018, net of accumulated depreciation	1,100,381	88,929	3,668	53,566	27,836	1,274,380
At 31 December 2018:						
Cost	1,210,163	180,545	13,324	106,267	27,836	1,538,135
Accumulated depreciation	(109,782)	(91,616)	(9,656)	(52,701)	–	(263,755)
Net carrying amount	1,100,381	88,929	3,668	53,566	27,836	1,274,380

13 Property, plant and equipment (continued)

	Property and buildings RMB'000	Electronic devices RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017						
At 1 January 2017:						
Cost	538,808	111,173	10,971	53,544	95,705	810,201
Accumulated depreciation	(65,117)	(61,182)	(6,318)	(38,354)	—	(170,971)
Net carrying amount	473,691	49,991	4,653	15,190	95,705	639,230
At 1 January 2017, net of accumulated depreciation	473,691	49,991	4,653	15,190	95,705	639,230
Additions	10,071	45,670	6,298	22,960	317,469	402,468
Disposals	—	(262)	(1,165)	—	—	(1,427)
Transfers	385,608	—	—	—	(385,608)	—
Depreciation provided during the year (note 6)	(16,741)	(12,463)	(4,428)	(5,121)	—	(38,753)
At 31 December 2017, net of accumulated depreciation	852,629	82,936	5,358	33,029	27,566	1,001,518
At 31 December 2017:						
Cost	934,487	156,581	13,260	76,504	27,566	1,208,398
Accumulated depreciation	(81,858)	(73,645)	(7,902)	(43,475)	—	(206,880)
Net carrying amount	852,629	82,936	5,358	33,029	27,566	1,001,518

The Group's land and buildings, included above at cost, were valued at RMB1,509,308,000 as at 31 August 2018 in the prospectus issued on 15 January 2019 in connection with the Listing of the Company's shares on 25 January 2019. Had the Group's buildings been included in these financial statements at such valuation amount throughout the year ended 31 December 2018, an additional depreciation charge of RMB1,127,000 would have been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

The Group's buildings are situated in Mainland China.

13 Property, plant and equipment (continued)

As at 31 December 2018, certificates of ownership in respect of certain buildings of the Group located in Zhaoqing city, the PRC, with a total net carrying amount of approximately RMB634,163,000 (2017: RMB474,663,000), have not yet been issued by the relevant PRC authorities. As at 31 December 2018, the Directors were still in the process of obtaining these certificates. In the opinion of the Directors, there is no major barrier for the Group to obtain the property ownership certificates.

14 Prepaid land lease payments

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**158,504**	162,086
Addition	**48,451**	—
Recognised during the year	**(4,257)**	(3,582)
Carrying amount at 31 December	**202,698**	158,504
Current portion included in prepayments, deposits and other receivables (note 17)	**(4,594)**	(3,582)
Non-current portion	**198,104**	154,922

These pieces of leasehold lands are located in Mainland China and are held under long term leases.

As at 31 December 2018, no leasehold lands (2017: RMB78,690,000) were pledged to secure bank loans (note 22).

15 Investment in a joint venture

	2018 RMB'000	2017 RMB'000
Share of net assets	**1,948**	1,915

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Issued ordinary/ registered share capital	Percentage of ownership interest attributable to the Group*(%)	Principal activity
Research Institute of Intelligent Manufacturing (Zhaoqing Gaoyao) Co., Ltd.	Ordinary shares	PRC/Mainland China	RMB5,000,000	49	Research of intelligent manufacturing technology

* The Group's interest in the joint venture is held through a subsidiary in Mainland China.

According to the articles of association, all the decisions shall be made with the unanimous consent of the shareholders. Consequently, the Group regards Research Institute of Intelligent Manufacturing (Zhaoqing Gaoyao) Co., Ltd. as a Joint Venture.

The following table illustrates the aggregate financial information of the Group's joint ventures that is not individually material:

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' profit/(loss) for the year	**33**	(6,791)
Share of the joint ventures' total comprehensive income/(loss) for the year	**33**	(6,791)
Aggregate carrying amount of the Group's investment in the joint venture	**1,948**	1,915

16 Trade receivables

	2018 RMB'000	2017 RMB'000
Tuition fee and boarding fees receivables	23,957	18,749
Provision for expected credit losses	(1,307)	(621)
	22,650	18,128

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 due from students who have applied for deferred payments 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 the senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of individual 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 loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	19,030	16,095
1 to 2 years	2,572	1,726
2 to 3 years	883	193
Over 3 years	165	114
	22,650	18,128

16 Trade receivables (continued)

The movements in the allowance for expected credit losses of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	621	840
Provision for expected credit losses (note 6)	1,287	1,253
Amount written off as uncollectible	(601)	(1,472)
At end of year	1,307	621

Impairment under HKFRS 9

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various student segments with similar loss patterns (i.e., by geographical region, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off after one year of the graduation of the specific students and are not subject to enforcement activity.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk and days past due of the trade receivables to measure the expected credit losses. During the year, the expected losses rate for students are determined as follows:

	Expected credit loss rate %	2018 Gross carrying amount RMB'000	2018 Expected credit losses RMB'000	2017 Gross carrying amount RMB'000	2017 Expected credit losses RMB'000
Category 1	0	21,997	—	17,771	—
Category 2	25	64	16	44	11
Category 3	50	524	262	362	181
Category 4	75	1,372	1,029	572	429
		23,957	1,307	18,749	621

16 Trade receivables (continued)

There was no change in the ECL rates during the year mainly because no significant changes in the historical default rates of trade receivables, economic conditions and performance and behaviour of the students were noted, based on which the ECL rates are determined.

17 Prepayments, deposits and other receivables

	2018 RMB'000	2017 RMB'000
Loans to third parties*	—	10,200
Taxes recorded from disposal of properties**	—	31,066
Prepaid land lease payments (current portion) (note 14)	4,594	3,582
Prepaid expenses	2,168	5,296
Prepaid listing expenses	11,024	3,120
Deposits	3,000	1,472
Other receivables	4,358	1,639
	25,144	56,375
Provision for expected credit losses	—	—
	25,144	56,375

* Loans to third parties are interest-free, unsecured and repayable on demand.

** Certain properties were disposed of by the Group to a third party at consideration of RMB69,930,000 in 2012 with related taxes amounting to RMB31,066,000, which would be borne by the buyer and were recorded in prepayments, deposits and other receivables as at 31 December 2017. On 28 April 2018, the transfer of ownership has been completed and the related taxes were set off against the taxes payable (note 21) on the same date.

The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Long ageing balances are reviewed regularly by senior management. In view of the fact that the Group's deposits and other receivables relate to a large number of diversified counterparties, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its deposits and other receivable balances. Other receivables are non-interest-bearing.

17 Prepayments, deposits and other receivables (continued)

Deposits and other receivables mainly represent deposits with suppliers. Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. Except for certain receivables for which the counterparty failed to make demanded repayment and the Group has made 100% provision ("default receivables"), the other balances were settled within 12 months and had no historical default, the financial assets included in the above balances were categorised in stage 1 at the end of the reporting period. In calculating the expected credit loss rate, the Group considers the historical loss rate and adjusts for forward-looking macroeconomic data. During the year, except for the default receivables, the Group estimated that the expected loss rate for other receivables is minimal.

The movements in the allowance for expected credit losses of deposits and other receivables are as follows:

	2018 RMB'000	2017 RMB'000
At the beginning of the year	–	10,800
Amount written off as uncollectible	–	(10,800)
	–	–

18 Short-term investments measured at fair value through profit or loss

	2018 RMB'000	2017 RMB'000
Other unlisted investments, at fair value	246,106	500

The above unlisted investments as at 31 December 2018 were wealth management products issued by banks. They were denominated in RMB and USD and have maturity within six months and expected coupon rates ranging from 2.75% to 3.7% per annum. The wealth management products were low risk principal guaranteed type products. The return on all of these wealth management products is not guaranteed, and hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore, they were mandatorily classified as short-term investments measured at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. None of these investments are past due.

19 Cash and cash equivalents

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**432,921**	369,058
Denominated in:		
RMB	**264,012**	368,317
HK$	**634**	19
US$	**168,275**	722

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB264,012,000 (2017: RMB368,317,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

20 Non-current assets classified as held for distribution on demerger

Amounts represent equity investments in Zhaoqing City Dinghu District Rural Credit Association, Guangdong Gaoyao Rural Commercial Bank Co., Ltd. and Zhaoqing Duanzhou Rural Commercial Bank Co., Ltd., which are all unlisted financial institutions. The fair values of unlisted equity investments were close to their original carrying values.

According to an agreement entered into between the Group and Zhaoqing Qiaoli Investment Company Limited ("Zhaoqing Qiaoli") on 1 September 2017, the Group has agreed to transfer equity investments with a total carrying amount of RMB78,000,000 to Zhaoqing Qiaoli (note 26). As at 31 December 2017, the transfer of ownership has not been completed since the pre-approval procedures of the China Banking Regulatory Commission have not been completed. Accordingly, all of the equity investments measured at fair value through profit or loss were reclassified as non-current assets held for distribution on demerger as at 31 December 2017.

The transfers of the equity investments were completed on 22 January 2018, 23 January 2018 and 25 January 2018, respectively.

21 Other payables and accruals

	2018 RMB'000	2017 RMB'000
Payables for salaries	**18,552**	7,437
Payables for social insurance and housing fund	**22,050**	18,473
Payables for scholarships	**6,534**	12,128
Payables for cooperative education fees	**1,650**	5,521
Payables for purchase of property, plant and equipment	**5,957**	107,375
Miscellaneous expenses received from students*	**27,027**	26,607
Taxes recorded from disposal of properties**	**—**	31,066
Other tax payable	**2,867**	3,913
Accrued listing expense	**16,774**	4,585
Accrued interest	**3,300**	—
Others	**10,932**	3,054
	115,643	220,159

* The amount represents the miscellaneous expenses received from students which will be paid out on behalf of students.

** Certain properties were disposed of by the Group to a third party at a consideration of RMB69,930,000 in 2012. The Group had obligation to settle related taxes amounting to RMB31,066,000, which would be borne by the buyer (note 17). On 28 April 2018, the transfer of ownership has been completed and the related taxes were set off against the taxes payable on the same date.

Other payables and accruals are non-interest-bearing and expected to be settled within one year.

22 Interest-bearing bank loans

	2018			2017		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — secured	4.75	2019	10,000	4.75~5.23	2018	30,000
Non-current						
Bank loans — secured	5.39	2024~2028	100,000	4.75~5.76	2019~2022	325,000
			110,000			355,000

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	10,000	30,000
In the second year	—	61,000
In the third to fifth years, inclusive	—	264,000
Beyond five years	100,000	—
	110,000	355,000

Notes:

(a) None of the Group's bank loans were secured by mortgages over certain of the Group's leasehold lands situated in Mainland China as at 31 December 2018 (2017: RMB78,690,000, note 14).

22 Interest-bearing bank loans (continued)

(b) The bank loans are also guaranteed by certain related parties at no cost. The guarantee amounts provided by the related parties as at 31 December 2018 and 2017 are as follows:

	2018 RMB'000	2017 RMB'000
Mr. Ye Nianqiao, Ms. Shu Liping, Mr. Ye Nianjiu	–	185,000
Mr. Ye Nianqiao, Ms. Shu Liping, Mr. Ye Nianjiu, Ms. Chen Xinni, Jiangxi Hong Zhou Vocational College and Jiangxi Kepei Investment Company Limited	10,000	170,000
Mr. Ye Nianqiao, Ms. Shu Liping and Zhaoqing Qiaoli	100,000	—
	110,000	355,000

23 Convertible redeemable bond

On 30 April 2018, the Company entered into a convertible redeemable bond subscription agreement (the "Convertible Redeemable Bond Subscription Agreement") with Skyline Miracle Limited (the "Pre-IPO Investor"), Mr. Ye Nianqiao, Orchid Asia VII, L. P. and Orchid Asia VII Co-Investment Limited, which are independent third parties, pursuant to which the Company issued a convertible redeemable bond (the "Convertible Redeemable Bond") with a principal amount of RMB330,000,000 convertible into ordinary shares of the Company to Skyline Miracle Limited. Immediately prior to the initial listing of the shares of the Company on the Stock Exchange, the whole principal amount under the Convertible Redeemable Bond shall be mandatorily and automatically converted into ordinary shares of the Company.

23 Convertible redeemable bond (continued)

The principal terms of the Convertible Redeemable Bond are set out below:

Interest	The Convertible Redeemable Bond bears interest on its outstanding principal amount from and including 1 November 2018 at the rate of 6% per annum
Maturity date	30 April 2020, unless such date is extended to 30 April 2022 at the bondholder's discretion
Automatic conversion	Immediately prior to Listing, the whole principal amount under the Convertible Redeemable Bond shall be mandatorily and automatically converted into ordinary shares of the Company. The number of conversion shares to be issued to the Pre-IPO Investor will be determined according to the formula set forth below: A/B x C Where: A = RMB330,000,000 B = RMB4,500,000,000, being the agreed valuation of the Company C = Shares expected to be in issue immediately upon the issue of the conversion shares to the Pre-IPO Investor and Listing (which will not take into account the number of shares to be issued pursuant to the over-allotment option)
Direct shareholding in the Company upon completion of the global offering (assuming the over-allotment option is not exercised)	7.33%

23 Convertible redeemable bond (continued)

The principal terms of the Convertible Redeemable Bond are set out below: (continued)

Repurchase of the Convertible Redeemable Bond	(i) the Company has not submitted the listing application by 31 December 2018; (ii) the Stock Exchange rejects or returns the listing application of the Company; (iii) the Company withdraws the listing application; (iv) the Company fails to take all reasonable actions to resubmit the listing application within 2 months following the lapse of the listing application and if the failure is based on assessment of the Company with a reasonable basis that it would be impracticable to resubmit within such 2 months' period or continued to pursue the Listing; (v) the Company fails to take all reasonable actions to resubmit the listing application within 2 months following the lapse of the listing application and if the failure is not based on assessment of the Company with a reasonable basis that it would be impracticable to resubmit within such 2 months' period or continued to pursue the Listing; (vi) the Listing is not completed on or prior to 31 days prior to the maturity date. the Pre-IPO Investor shall have the right, at any time after the first occurrence of any of the events, to require the Company or Mr. Ye Nianqiao to early redeem or repurchase the Convertible Redeemable Bond at RMB330,000,000 plus interest accrued at 15% per annum from 1 May 2018 (in the case of event (i), (iii) or (v) above) or 1 November 2018 (in the case of event (ii), (iv) or (vi) above) until the date of redemption or repurchase, but in the case where the Pre-IPO Investor only exercises such right on a day which is after 31 days from the date of occurrence, interest from the period from the 32th day until the date of redemption or repurchase will be accrued on the basis of 6% per annum. The above right of the Pre-IPO Investor to requisite a redemption or repurchase will terminate upon the Pre-IPO Investor ceasing to hold the Convertible Redeemable Bond which will occur immediately prior to Listing.
Guarantors	Mr. Ye Nianqiao is a party to the Convertible Redeemable Bond Subscription Agreement to guarantee the performance by the Company of its obligations under the Convertible Redeemable Bond Subscription Agreement. Orchid Asia VII, L.P. and Orchid Asia VII Co-Investment Limited are parties to the Convertible Redeemable Bond Subscription Agreement to, on a joint and several basis, guarantee the performance of the Pre-IPO Investor of its obligations under the Convertible Redeemable Bond Subscription Agreement.

23 Convertible redeemable bond (continued)

The terms of the Convertible Redeemable Bond allow conversion into a fixed percentage of outstanding shares of the Company at the time of the conversion, so that the absolute number of shares to be issued is not fixed and is not known until conversion occurs. The Group's directors are of view that such a conversion option cannot normally be classified as equity, because the Company's capital structure could change in ways that put the convertible redeemable bond holder into a better economic position relative to other shareholders.

The Convertible Redeemable Bond issued during the year was designated as a financial liability at fair value through profit or loss on initial recognition. At the end of the reporting period subsequent to initial recognition, the Convertible Redeemable Bond is measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The valuation of the Convertible Redeemable Bond as at 31 December 2018 is disclosed in note 34 to the financial statements.

On 25 January 2019, the Company was listed on the Main Board of Stock Exchange and made an offering of 353,334,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$2.48 per share. Upon completion of the initial public offering on 25 January 2019, the whole principal amount under the Convertible Redeemable Bond was mandatorily and automatically converted into ordinary shares of the Company. The number of conversion shares issued to the Pre-IPO Investor was 146,666,667.

24 Deferred income

	2018 RMB'000	2017 RMB'000
Government grants		
At beginning of year	5,585	6,316
Charged to profit or loss	(808)	(731)
At end of year	4,777	5,585
Current	808	808
Non-current	3,969	4,777
	4,777	5,585

24 Deferred income (continued)

These government grants are related to the subsidies received from the local government for the purpose of compensating the operating expenses arising from the teaching activities of Group's schools and expenditures on teaching facilities. Upon completion of the operating activities and the related projects, the grants related to the expense items would be recognised as other income directly in profit or loss and the grants related to an asset would be released to profit or loss over the expected useful life of the relevant asset.

25 Share capital

	2018 RMB'000	2017 RMB'000
Authorised:		
5,000,000 ordinary shares of a par value of US$0.01 each	333	333
Issued and fully paid:		
1,000 ordinary shares as at 31 December 2018 (2017: 1,000 ordinary shares)	–	–

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 24 August 2017 with initial authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which one share of US$1.00 was issued and allotted to the initial subscriber, and such share was transferred to Qiaoge Company Limited ("Qiaoge") on the same day.

On 24 October 2017, each share of a par value of US$1.00 in the authorised share capital of the Company (including the one issued share and 49,999 unissued shares) was subdivided into 100 shares of a par value of US$0.01 each and the authorised share capital became US$50,000 divided into 5,000,000 shares of a par value of US$0.01 each. Qiaoge held 100 issued shares of a par value of US$0.01 each.

On 25 October 2017, 900 shares of US$0.01 each of the Company have been issued and credited as fully paid.

On 10 January 2019, pursuant to the written resolution of the shareholders of the Company, the authorised share capital of the Company was subdivided from US$50,000 divided into 5,000,000 shares of US$0.01 each to US$50,000 divided into 5,000,000,000 shares of US$0.00001 each. Therefore, the number of shares in issue became 1,000,000 before the Capitalisation Issue.

25 Share capital (continued)

A summary of movements in the Company's share capital is as follows:

	Notes	Number of shares in issue	Issued capital RMB'000
Before the Capitalisation Issue		1,000,000	—
Capitalisation Issue	(a)	1,499,000,000	102
Conversion of the Convertible Redeemable Bond	(b)	146,666,667	10
Global offering (excluding shares issued under the over-allotment option)	(b)	353,334,000	24
Over-allotment	(c)	798,000	—
Up to the date of this report		2,000,798,667	136

(a) On 10 January 2019, pursuant to the written resolution of the shareholders of the Company, the Directors were authorised to capitalise the amount of USD14,990 of the Company to pay up in full at par 1,499,000,000 shares for allotment and issue to the persons whose names appear on the register of members of the Company of the date of the written resolution (or as they may direct) on a pro rata basis.

(b) On 25 January 2019, the Company was listed on the Main Board of Stock Exchange with the stock code 1890 and made an offering of 353,334,000 ordinary shares (excluding any ordinary shares issued pursuant to the exercise of the over-allotment option) at a price at HK$2.48 per share.

Upon completion of the initial public offering, the whole principal amount under the convertible redeemable bond was mandatorily and automatically converted into 146,666,667 ordinary shares of the Company.

(c) On 15 February 2019, the over-allotment option was partially exercised and the Company allotted and issued 798,000 additional shares, representing approximately 0.23% of the total number of the offer shares initially available under the global offering, at HK$2.48 per share on 22 February 2019.

26 Reserves

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 87 of the financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from Zhaoqing Kepei (the "School Sponsor") and the PRC Schools.

Pursuant to a shareholder resolution passed by all the shareholders of Zhaoqing Kepei on 10 September 2017, of which certain terms were further clarified by a supplement resolution dated 1 November 2017: Zhaoqing Kepei was demerged into Zhaoqing Kepei which assumes all the legitimate status of and is considered as successor of the existing Zhaoqing Kepei and a newly established company namely Zhaoqing Qiaoli with an identical shareholding structure of the existing Zhaoqing Kepei. The registered capital and paid-in capital of Zhaoqing Kepei was reduced to RMB25,000,000 and RMB2,000,000, and the registered capital and paid-in capital of Zhaoqing Qiaoli was RMB75,000,000 and RMB60,000,000, respectively.

Zhaoqing Kepei shall transfer to Zhaoqing Qiaoli certain non-Listing Business including a 49% equity interest in Jiangxi Kepei with a carrying value of RMB6,200,000, investments in Guangdong Gaoyao Rural Commercial Bank Co., Ltd., Zhaoqing Duanzhou Rural Commercial Bank Co., Ltd. and Zhaoqing City Dinghu District Rural Credit Association with a carrying value of RMB78,000,000 (note 20) and a receivable due from Jiangxi Kepei amounting to RMB65,800,000 and the transfers were treated as a deemed distribution by Zhaoqing Kepei to its owners with a reduction in reserves of RMB150,000,000. The reduction of reserves by RMB72,000,000 was recorded as at 31 December 2017 when the transfer of equity interest in Jiangxi Kepei and transfer of receivables due from Jiangxi Kepei were completed and the reduction of reserves of RMB78,000,000 was recorded in January 2018 when the transfer of investments in the three financial institutions was completed.

26 Reserves (continued)

(b) Statutory and other surplus reserves

Pursuant to the relevant laws in the PRC, the Company's subsidiaries in Mainland China shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries. These reserves include (i) 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 may be converted to registered 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 a private school which requires reasonable returns, it is required to appropriate to the development fund of not less than 25% of the annual net income of the relevant school as determined in accordance with generally accepted accounting principles in the PRC, while in the case of a private school that does not require reasonable returns, the appropriation amount is at least 25% of annual net income or the annual increase in the net assets of the school. The development fund is for the construction or maintenance of the school, or procurement or upgrading of educational equipment.

27 Note to the consolidated statement of cash flows

Changes in liabilities arising from financing activities:

2018

	Convertible redeemable bond RMB'000
At 1 January 2018	—
Changes from financing cash flows	330,000
Fair value adjustment	2,700
At 31 December 2018	332,700

28 Contingent liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened (2017: Nil).

29 Operating lease arrangements

(a) As lessor

The Group leases its certain buildings under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**12,531**	11,257
In the second to fifth years, inclusive	**22,471**	27,852
After five years	**195**	272
	35,197	39,381

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms of five years, and those for office equipment are for terms of one year.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	RMB'000	RMB'000
Within one year	**1,509**	—
In the second to fifth years, inclusive	**4,905**	—
	6,414	—

30 Commitments

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for:		
Buildings	19,490	202,745

At the end of the reporting period, the Group did not have significant capital commitments that are authorised but not contracted for.

31 Related party transactions

(a) Names and relationships of related parties

Name	Relationship
Mr. Ye Nianqiao	Director of the Company
Ms. Shu Liping	Spouse of Mr. Ye Nianqiao
Mr. Ye Nianqing	Brother of Mr. Ye Nianqiao
Mr. Ye Nianjiu	Brother of Mr. Ye Nianqiao
Ms. Chen Xinni	Spouse of Mr. Ye Nianjiu
Ms. Shu Jun	Sister of Ms. Shu Liping
Jiangxi Xinercheng Animal Pharmaceutical Industry Co., Ltd.	A company invested by Mr. Ye Nianqiao
Jiangxi Kepei Investment Company Limited	A joint venture of the Company until 22 December 2017 and of Zhaoqing Qiaoli since 22 December 2017
Jiangxi Hong Zhou Vocational College	A company controlled by Jiangxi Kepei
Guangdong Polytechnic College Real Estate Development Co., Ltd.	A company invested by Mr. Ye Nianqiao
Zhaoqing Qiaoli Investment Company Limited	A company controlled by Mr. Ye Nianqiao

31 Related party transactions (continued)

(b) Outstanding balances with related parties

Amount due from a director:

Name	Note	2018 RMB'000	2017 RMB'000
Mr. Ye Nianqiao	32	–	178,110

Amounts due from related parties:

Name	2018 RMB'000	2017 RMB'000
Jiangxi Xinercheng Animal Pharmaceutical Industry Co., Ltd.	–	500
Ms. Shu Jun	–	2,150
Jiangxi Kepei	–	141,916
	–	144,566

Except for part of the amounts due from Jiangxi Kepei (note 31(c)), amounts due from these related parties were unsecured, interest-free and had no fixed terms of repayment. The amounts due from a director and due from related parties were non-trade in nature.

Amount due to a related party:

Name	2018 RMB'000	2017 RMB'000
Mr. Ye Nianqing	–	400

The amount due to a related party was unsecured, interest-free and had no fixed terms of repayment. The amount due to a related party was trade in nature.

31 Related party transactions (continued)

(c) Related party transactions

Name	Nature of transaction	2018 RMB'000	2017 RMB'000
Mr. Ye Nianqing	Meal offering*	–	2,816
Jiangxi Kepei	Interest income**	–	7,855
		–	10,671

* The meal offering was made according to the published prices and conditions offered by Mr. Ye Nianqing to his major customers.

** The interest income arose from the following amounts due from Jiangxi Kepei:

^ The principal amount of RMB80,000,000 at a fixed interest rate of 5.67% per annum with no fixed terms of repayment;

^^ The principal amount of RMB100,000,000 at a fixed interest rate of 4.75% per annum with no fixed terms of repayment.

*** For bank loans secured or guaranteed by related parties, please refer to note 22.

**** On 13 January 2016, the Company's shareholder, Mr. Ye Nianqiao intended to grant certain employees 300 units of properties with a total area of 33,417 square meters, at a consideration of RMB117,529,000. On 10 January 2017, the Group communicated the terms and conditions with the employee grantees who contribute to the past success of the Group's operation. No unfulfilled condition shall be met by the eligible employees to obtain the properties. The fair value of these properties is RMB129,658,000. The difference between the consideration and the fair value of these properties amounted to RMB12,129,000 was recorded as employee benefits in 2017.

(d) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	7,054	3,478
Pension scheme contributions	512	82
	7,566	3,560

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

32 Loans to a director

Loans to a director, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Name	As at 31 December 2018 RMB'000	Maximum amount outstanding during the year RMB'000	As at 31 December 2017 and 1 January 2018 RMB'000	Maximum amount outstanding during the prior year RMB'000	At 1 January 2017 RMB'000
Mr. Ye Nianqiao	–	178,110	178,110	201,110	207,666

The loans granted to a director bear no interest and were repayable on demand.

33 Financial instruments by category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets at fair value through profit or loss

	2018 RMB'000	2017 RMB'000
Short-term investments measured at fair value through profit or loss	246,106	500

33 Financial instruments by category (continued)

Financial assets at amortised costs

	2018 RMB'000	2017 RMB'000
Trade receivables	22,650	18,128
Financial assets included in prepayments, deposits and other receivables	7,358	13,311
Amount due from a director	—	178,110
Amounts due from related parties	—	144,566
Cash and cash equivalents	432,921	369,058
	462,929	723,173

Financial liabilities at amortised cost

	2018 RMB'000	2017 RMB'000
Financial liabilities included in other payables and accruals	27,681	117,481
Amount due to a related party	—	400
Interest-bearing bank loans	110,000	355,000
	137,681	472,881

Financial liability at fair value through profit or loss

	2018 RMB'000	2017 RMB'000
Convertible Redeemable Bond	332,700	—

34 Fair value and fair value hierarchy of financial instruments

As at 31 December 2018, the fair values of the Group's financial assets or liabilities approximated to their respective carrying amounts.

Management has assessed that the fair values of trade receivables, cash and cash equivalents, financial assets included in prepayments, deposits and other receivables, short-term investments measured at fair value through profit or loss, financial liabilities included in other payables and accruals and the current portion of interest-bearing bank loans approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The Directors review the results of the fair value measurement of financial instruments periodically for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of unlisted long-term investments measured at fair value through profit or loss have been estimated using a Price/Book ratio — Return On Equity ("PB-ROE") valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the Directors to make estimates about choosing the comparable companies for the valuation inputs. The Directors believe that the estimated fair value changes resulting from the valuation technique were assessed to be insignificant at the end of the year.

The Group invests in unlisted investments, which represent wealth management products issued by banks. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The fair values of the non-current interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates that reflects the Group's borrowing rates as at the end of the reporting period. The Group's own non-performance risk for interest-bearing bank loans as at 31 December 2018 was assessed to be insignificant.

The fair value of the Convertible Redeemable Bond is determined by using valuation techniques. The Group has used the discounted cash flow method to determine the underlying equity value of the Company and adopted the scenario analysis method to determine the fair value of the Convertible Redeemable Bond.

34 Fair value and fair value hierarchy of financial instruments (continued)

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018 and 2017:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investments (note 20)	Comparable transactions approach	Price-To-Book Value Ratio (Price/Book)	2018: n/a (2017: 0.50–1.52)	2018: n/a (2017: 10% increase/decrease in price-to-book value ratio would result in increase/decrease in fair value by RMB7,572,000)
Unlisted investments — wealth management products (note 18)	Discounted cash flow method	Interest return rate	2018: 2.75%–3.7% (2017: 2.2%–3.5%)	2018: 100 basis point increase/decrease in interest return rate would result in increase/ decrease in fair value by RMB469,000 (2017: Nil).
Convertible Redeemable Bond (note 23)	Option pricing method	Discount rate*	14% (2017: n/a)	100 basis point increase in discount rate would result in decrease in fair value by RMB25,000,000; 100 basis point decrease in discount rate would result in increase in fair value by RMB28,000,000 (2017: n/a)
		Probability of scenarios*	Scenario 1:95% Scenario 2:5% (2017: n/a)	500 basis point increase in probability of scenario 1 (IPO) would result in decrease in fair value by RMB844,000; 500 basis point decrease in probability of scenario 1 (IPO) would result in increase in fair value by RMB638,000 (2017: n/a)
		Risk-free interest rate*	2.02%–2.47% (2017: n/a)	100 basis point increase in risk-free interest rate would result in decrease in fair value by RMB69,000; 100 basis point decrease in risk-free interest rate would result in increase in fair value by RMB450,000 (2017: n/a)

34 Fair value and fair value hierarchy of financial instruments (continued)

Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
	Discount for Lack of Marketability ("DLOM")*	5% (2017: n/a)	100 basis point increase in DLOM would result in decrease in fair value by RMB4,000,000; 100 basis point decrease in DLOM would result in increase in fair value by RBM2,000,000 (2017: n/a)
	Volatility*	46% (2017: n/a)	500 basis point increase in volatility would result in increase in fair value by RBM538,000; 500 basis point decrease in volatility would result in decrease in fair value by RMB367,000 (2017: n/a)

* The discount rate was based on the weighted average cost of capital.

The probability of scenarios was based on management estimation of the Company.

The risk-free interest rate referred to the yields of China Government bond as at the valuation dates.

The DLOM was a factor to be considered in valuing closely held Company is the marketability of an interest in such business. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held Company, because there is no established market of readily-available buyers and sellers.

Volatility was based on the comparison of historical volatility of comparable companies.

34 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:

Assets measured at fair value:

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
Short-term investments measured at fair value through profit or loss	**—**	**—**	**246,106**	**246,106**

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
Unlisted equity investments	—	—	78,000	78,000
Short-term investments measured at fair value through profit or loss	—	—	500	500
	—	—	78,500	78,500

34 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

The movements in fair value measurements within Level 3 during the year were as follows:

Unlisted investments

	2018 RMB'000	2017 RMB'000
At 1 January	78,500	108,000
Total gains recognised in the statement of profit or loss and other comprehensive income included in other income and gains	1,389	—
Purchases	244,717	500
Disposals	(78,500)	(30,000)
At 31 December	246,106	78,500

Liabilities for which fair values are disclosed:

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 loans	—	100,000	—	100,000

34 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed: (continued)

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 loans	—	325,000	—	325,000

Liabilities measured at fair value:

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
Convertible Redeemable Bond	—	—	332,700	332,700

The Group did not have any financial liabilities measured at fair value as at 31 December 2017.

34 Fair value and fair value hierarchy of financial instruments (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

The movements in fair value measurements within Level 3 during the year were as follows:

	2018 RMB'000
At 1 January	–
Proceeds from issue of the Convertible Redeemable Bond	330,000
Fair value adjustment	2,700
At 31 December	332,700

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 for both financial assets and financial liabilities.

35 Financial risk management objectives and policies

The Group's principal financial instruments comprise bank loans, cash and cash equivalents, the convertible redeemable bond and wealth management products. The main purpose of the financial instruments is to raise finance for the Group's operation. The Group has various other financial assets and liabilities such as trade 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, foreign currency 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.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates.

It is the Group's policy to keep certain borrowings at fixed rates of interest so as to minimise the interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of the Company will consider hedging significant interest rate risk should the need arise.

35 Financial risk management objectives and policies (continued)

Interest rate risk (continued)

The sensitivity analysis has been determined based on the exposure to interest rates for variable rate bank loans at the end of the reporting period and assumed that the amount of bank loans outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by RMB1,665,000 (2017: RMB70,000). This is mainly attributable to the Group's exposure to variable interest rates on its bank loans.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the proceeds from the convertible redeemable bond denominated in USD.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and RMB exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in USD/RMB %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2018			
If the RMB weakens against the USD	5%	16,652	16,652
If the RMB strengthens against the USD	(5%)	(16,652)	(16,652)
2017			
If the RMB weakens against the USD	5%	36	36
If the RMB strengthens against the USD	(5%)	(36)	(36)

35 Financial risk management objectives and policies (continued)

Credit risk

The Group is exposed to credit risk from cash and cash equivalents placed with banks, trade receivables, short-term investments measured at fair value through profit or loss and other receivables. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018 and 2017. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2018

	Notes	12-month ECLs	Lifetime ECLs	
			Simplified	
		Stage 1	approach	
		RMB'000	RMB'000	RMB'000
Trade receivables	(a)	—	23,957	23,957
Financial assets included in prepayments, deposits and other receivables	(b)	7,358	—	7,358
Cash and cash equivalents — not yet past due	(c)	432,921	—	432,921
		440,279	23,957	464,236

35 Financial risk management objectives and policies (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2017

	Notes	12-month ECLs	Lifetime ECLs	
			Simplified	
		Stage 1	approach	
		RMB'000	RMB'000	RMB'000
Trade receivables	(a)	—	18,749	18,749
Financial assets included in prepayments, deposits and other receivables	(b)	13,311	—	13,311
Amount due from a director	(d)	178,110	—	178,110
Amounts due from related parties	(d)	144,566	—	144,566
Cash and cash equivalents — not yet past due	(c)	369,058	—	369,058
		705,045	18,749	723,794

(a) The Group's trade receivables are due from a number of individual students. Credit quality of each student is assessed and outstanding receivables are regularly monitored. For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 16 to the financial statements.

(b) The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

(c) As disclosed in note 19 to the financial statements, most of the bank balances are deposited with creditworthy banks with no recent history of default. The expected credit loss is close to zero.

(d) The Group analysed the credit risk related to amounts due from related parties and categorised all the amounts due from related parties in stage 1 at the end of the reporting period. During the year, the Group estimated that the expected loss rate for amounts due from related parties is minimal.

35 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 internally generated cash flows from operation, bank loans and the convertible redeemable bond. 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, is as follows:

2018	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans — *fixed rate*	—	10,034	—	—	—	10,034
Interest-bearing bank loans — *variable rate*	—	1,348	4,117	21,874	112,620	139,959
Financial liabilities included in other payables and accruals	27,681	—	—	—	—	27,681
Convertible redeemable bond	330,000	—	—	—	—	330,000
	357,681	11,382	4,117	21,874	112,620	507,674

2017	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank loans — *fixed rate*	7,270	4,361	35,984	350,843	—	398,458
Financial liabilities included in other payables and accruals	117,481	—	—	—	—	117,481
Due to a related party	400	—	—	—	—	400
	125,151	4,361	35,984	350,843	—	516,339

35 Financial risk management objectives and policies (continued)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain the confidence of creditors and the market and to sustain future development of business.

The directors of the Company 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 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 debts. The Group's overall strategy remained unchanged during the year.

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 the reporting period are as follows:

	2018 RMB'000	2017 RMB'000
Total liabilities	**897,684**	839,539
Total assets	**2,330,249**	2,008,148
Debt-to-asset ratios	**39%**	42%

36 Events after the reporting period

Save as disclosed elsewhere in the financial statements, there was no other significant events took place subsequent to 31 December 2018 and up to the date of approval of these financial statements.

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
CURRENT ASSETS		
Prepayments	11,024	1,110
Short-term investments measured at fair value through profit or loss	165,547	—
Amounts due from subsidiaries	2,669	—
Cash and cash equivalents	168,780	708
Total current assets	348,020	1,818
CURRENT LIABILITIES		
Other payables and accruals	17,485	—
Amount due to a director	—	5,147
Amount due to a subsidiary	3,120	—
Convertible redeemable bond	332,700	—
Total current liabilities	353,305	5,147
NET CURRENT LIABILITIES	(5,285)	(3,329)
TOTAL ASSETS LESS CURRENT LIABILITIES	(5,285)	(3,329)
Net liabilities	(5,285)	(3,329)
DEFICIENCY IN EQUITY		
Share capital	—	—
Reserves (note)	(5,285)	(3,329)
Total deficiency in equity	(5,285)	(3,329)

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Ye Nianqiao **Li Yan**

Director *Director*

37 Statement of financial position of the company (continued)

Note:

A summary of the Company's reserves is as follows:

	Accumulated losses RMB'000
At 1 January 2017	—
Loss for the year	(3,329)
Total comprehensive loss for the year	(3,329)
At 31 December 2017 and 1 January 2018	**(3,329)**
Loss for the year	**(1,956)**
Total comprehensive loss for the year	**(1,956)**
At 31 December 2018	**(5,285)**

38 Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

China Kepei Education Group Limited
中國科培教育集團有限公司