VIRSCEND EDUCATION COMPANY LIMITED

成實外教育有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1565

ANNUAL REPORT 2018

A PROFOUND CHINESE FOUNDATION,

A PANORAMIC GLOBAL OUTLOOK,

AN INNOVATIVE FUTURE

CONTENTS

COMPANY PROFILE

The Group is a leading provider of pre-school to grade 12 and university private education services. Through our schools, we provide education services to students in every age group from kindergarten through university. As at 31 December 2018, we had enrollment of an aggregate number of approximately 45,802 students, with 29,415 students enrolled in our K-12 schools and 16,387 students enrolled in the university, and we employed an aggregate of approximately 3,017 teachers in China. In addition, the Group operates the Virscend University in Irvine, California, the United States, mainly offering a Master of Business Administration program. Virscend University is currently in the process of applying for WSCUC accreditation, a regional accreditation issued by the WASC Senior College and University Commission to public and private higher education institutions throughout California, Hawaii and the Pacific, to meet the standard of high quality higher education in the region.

We currently operate sixteen schools in three cities and a county in Sichuan province, namely Chengdu City, Panzhihua City, Zigong City and Qu County. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university. We are one of the few private education companies in Southwest China that offer complete K-12 and university education. This allows us to attract students at an early age and create a stable student pipeline for our schools at each grade within the K-12 system. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For the Gaokao administered in 2016, 2017 and 2018, approximately 87.0%, 94.6% and 94.7% of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. Moreover, certain of the Group's high school graduating students were admitted into the reputable colleges and universities overseas in 2018, such as Oxford University, Johns Hopkins University and so on.

Through over 19 years of operating private schools in Sichuan Province, 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 fundamental education industry in China.

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Wang Xiaoying *(Chairwoman of the Board)*
Mr. Yan Yude *(Chief Executive Officer)*
Mr. Ye Jiayu
Mr. Deng Bangkai *(effective from 15 November 2018)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Mr. Wen Ruizheng *(effective from 15 November 2018)*

AUDIT COMMITTEE

Mr. Chan Kim Sun *(Chairman)*
Mr. Sit Chiu Wing
Mr. Wen Ruizheng *(effective from 15 November 2018)*

REMUNERATION COMMITTEE

Mr. Sit Chiu Wing *(Chairman)*
Ms. Wang Xiaoying
Mr. Wen Ruizheng *(effective from 15 November 2018)*

NOMINATION COMMITTEE

Mr. Sit Chiu Wing *(Chairman)*
Mr. Yan Yude
Mr. Wen Ruizheng *(effective from 15 November 2018)*

AUTHORISED REPRESENTATIVES

Ms. Wang Xiaoying
Mr. Deng Bangkai *(effective from 15 November 2018)*

COMPANY SECRETARY

Ms. Ng Sau Mei

LEGAL ADVISORS

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AUDITOR

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CORPORATE INFORMATION

REGISTERED OFFICE

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HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Chengdu
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Industrial and Commercial Bank of China

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COMPANY'S WEBSITE

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STOCK CODE

1565

DATE OF LISTING

15 January 2016

FINANCIAL HIGHLIGHTS

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

FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

Result of operation	For the year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Revenue	626,007	707,690	827,205	952,767	**1,167,954**
Gross profit	254,623	296,353	391,190	454,065	**501,274**
Profit for the year	114,321	125,150	302,161	314,865	**363,161**
Core net profit (note)	114,321	151,444	259,234	339,624	**355,875**
Attributable to equity holders of the parent	79,120	109,677	302,306	306,374	**356,371**
Basic earning per share (RMB)	0.04	0.05	0.10	0.10	**0.12**

Note: Core net profit was derived from the profit for year after adjusting foreign exchange gains or losses and the expense relating to the listing which are 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				
	2014	2015	2016	2017	**2018**
Gross profit margin (%)	40.7%	41.9%	47.3%	47.7%	**42.9%**
Net profit margin (%)	18.3%	17.7%	36.5%	33.0%	**31.1%**
Core net profit margin (%)	18.3%	21.4%	31.3%	35.6%	**30.5%**

FINANCIAL HIGHLIGHTS

Assets and liabilities	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Non-current assets	2,349,135	2,324,487	3,107,630	4,050,114	**4,005,904**
Current assets	246,415	288,788	1,093,616	340,354	**929,532**
Current liabilities	1,075,774	1,272,640	1,553,049	1,380,950	**1,485,759**
Net current liabilities	(829,359)	(983,852)	(459,433)	(1,040,596)	**(556,227)**
Total assets less current liabilities	1,519,776	1,340,635	2,648,197	3,009,518	**3,449,677**
Non-current liabilities	837,493	752,184	101,626	329,377	**616,744**
Total equity	682,283	588,451	2,546,571	2,680,141	**2,832,933**
Property, plant and equipment	812,794	2,064,117	2,518,179	3,249,970	**3,543,997**
Cash and cash equivalents	109,850	248,600	564,196	294,107	**639,392**
Contract liabilities/Deferred revenue	371,371	435,743	480,200	585,982	**712,163**
Interest-bearing bank borrowings	1,350,648	1,335,021	994,284	919,037	**1,082,000**

Financial ratio	As at/for the year ended 31 December				
	2014	2015	2016	2017	**2018**
Current ratio	0.23	0.23	0.70	0.25	**0.63**
Gearing ratio (note)	198.0%	226.9%	39.0%	34.3%	**38.2%**

Note: Gearing ratio equals total debt divided by total equity as of the end of the year. Total debt means all interest-bearing bank borrowings.

Cash flows	For the year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Net cash from operating activities	273,865	577,035	458,873	521,616	**712,627**

CHAIRWOMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I hereby present the annual report of the Group for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The Group's audited profit attributable to equity holders of the parent for the year ended 31 December 2018 was RMB356.4 million, representing an increase of 16.3% compared with the results for the previous year. Basic and diluted earnings per share for the year ended 31 December 2018 were RMB0.12.

The Board has resolved to recommend the payment of a final dividend of HK4.0 cents per share for the year ended 31 December 2018.

BUSINESS HIGHLIGHTS

Through over 19 years of operating private schools in Sichuan Province, the Group has established a strong reputation and believes that the schools are highly recognizable in Chengdu and other parts of Sichuan Province and are often viewed by students and their parents as a pathway to first-tier universities in China and reputable colleges and universities abroad. As at 31 December 2018, the total student enrollment, including K-12 students and the university students, increased to approximately 45,802, with an increase of 19.0% in the total student enrollment compared to that of previous year.

The Group strives to provide continuous high-quality education services to students and cultivate well-rounded students who possess global perspective and practical knowledge. For Gaokao administered in 2018, approximately 94.7% of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be accepted by first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others. Moreover, certain of the Group's high school graduating students were admitted into the reputable colleges and universities overseas in 2018, including Oxford University and Johns Hopkins University, among others.

CHAIRWOMAN'S STATEMENT

PROSPECTS

As a pioneer in the private education industry in Sichuan Province, the Group has accumulated abundant experience in operating private schools, which positions us well to capitalise on the growing opportunities in the PRC private education sector.

The Group intends to leverage its reputation to expand its school network in Southwest China. In order to solidify and strengthen its market-leading position in the region, the Group plans to expand its existing business by collaborating with third-party business partners and establish new schools. The Group established one new school campus in September 2018 in Qu County, Sichuan Province, to operate two new schools of the Group. These two schools has commenced operation in 2018, increasing our total capacity to further accommodate more than 4,000 students. The Group expects to open a middle to high school in Ya'an, Sichuan Province, one new primary school and one-stop comprehensive education program in commercial complex in Chengdu in 2019. The Group believes that the establishment of the new schools would further strengthen its position as the largest and high-quality provider of K-12 private education services in Southwest China.

APPRECIATION

On behalf of the Board, I would like to thank all our Shareholders and stakeholders for their continued trust and confidence. I would also like to extend our sincere gratitude to the management and the staff to carry 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 Shareholders.

Wang Xiaoying
Chairwoman

Sichuan, the PRC, 25 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

The PRC formal education industry primarily consists of fundamental education and higher education. The PRC fundamental education market can be further divided into four phases: pre-school, primary school, middle school and high school. Among the four phases of fundamental education, primary school and middle school constitute the nine years of compulsory education, while the pre-school and high school constitute the non-compulsory education.

The Group aims to provide high quality education programs to students and is well recognized by parents and students in academic excellence. We target students from middle class family who pursuit high quality educational resources for children. Meanwhile, the society's general awareness of the importance of education is increasing and resulted in the growing demand for high-quality private fundamental education service. With the increase in income and wealth, the middle class families can afford the higher expenditure on high-quality educational activities. Looking forward, the market trend in both revenue and student enrollment for private fundamental education in China will continue to grow. In order to capture the future growth and increase our market share, the Group will focus on continuously enhancing our competitiveness, providing more flexible and diversified curriculum to our students and improving our quality of private education in the future.

BUSINESS OVERVIEW

In 2018, the Group established two new schools in Qu County, Sichuan Province, the PRC. As at 31 December 2018, the Group had operated 16 schools located in three cities and a county in Sichuan Province. The Group also had an associate school located at the Hi-tech Industrial Development Zone of Chengdu City, which commenced operation in September 2017. Through these schools, we offer formal education with comprehensive education programs from kindergarten through university. As at 31 December 2018, the Group's total student enrolment was 45,802, with 29,415 students enrolled in our K-12 schools and 16,387 students enrolled in the university.

Revenue

For the year ended 31 December 2018, the Company has recorded an increase in its revenue from RMB952.8 million for the year ended 31 December 2017 to RMB1,168.0 million for the year ended 31 December 2018. Revenue of the Group refers to: (i) students fee, typically comprising tuition fees and boarding fees; (ii) revenue from management and consultation services provided to the associate school and a third party. Tuition fees remained to be the major revenue, accounted for approximately 95.9% of the total revenue of the Company for the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the breakdown of the revenue of the Group:

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	Change RMB'000	Percentage Change
Tuition fees and boarding fees	**1,166,696**	952,767	+213,929	+22.5%
Management and consultation services	**1,258**	—	+1,258	+100%
Total	**1,167,954**	952,767	+215,187	+22.6%

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

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	Change RMB'000	Percentage Change
High School – domestic program	**266,840**	211,356	+55,484	+26.3%
High School – international program	**40,428**	39,375	+1,053	+2.7%
Middle school	**396,586**	347,609	+48,977	+14.1%
Primary school	**194,292**	109,967	+84,325	+76.7%
Kindergarten	**12,401**	8,917	+3,484	+39.1%
University	**210,102**	194,273	+15,829	+8.1%
Total tuition fees	**1,120,649**	911,497	+209,152	+22.9%
Boarding fees	**46,047**	41,270	+4,777	+11.6%
Total	**1,166,696**	952,767	+213,929	+22.5%

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

The following table sets forth the gross and average tuition fee of each of the categories of the schools operated by the Group:

Categories of the schools	School Year 2018/2019 Gross Tuition Fees RMB'000	2018/2019 Average Tuition Fees RMB	2017/2018 Gross Tuition Fees RMB'000	2017/2018 Average Tuition Fees RMB
High School – domestic program	**309,375**	**35,463**	251,063	35,657
High School – international program	**36,763**	**95,487**	35,067	94,266
Middle school	**426,768**	**34,601**	376,627	34,455
Primary school	**255,243**	**34,413**	154,056	33,918
Kindergarten	**14,418**	**28,952**	11,478	26,447
University	**220,151**	**13,434**	202,005	13,071

Note: Average tuition fees are calculated based on the gross tuition fees (excluding boarding fees) a particular school received for a given school year divided by the total number of students enrolled at such school for the same school year. For the purpose of this calculation, unlike revenue, which is determined after deducting scholarships and refunds, gross tuition fees do not take into account the scholarships granted or refunds made by the schools to their students for the relevant school year.

Student Enrollment

The table below sets forth information relating to the student enrollment for each of the categories:

	As at 31 December 2018	As at 31 December 2017	Change	Percentage Change
High school students – domestic program	**8,694**	6,893	+1,801	+26.1%
High school students – international program	**472**	448	+24	+5.4%
Middle school students	**12,334**	10,810	+1,524	+14.1%
Primary school students	**7,414**	4,548	+2,869	+63.1%
Kindergarten students	**498**	395	+103	+26.1%
K-12 students	**29,415**	23,094	+6,321	+27.4%
University students	**16,387**	15,404	+983	+6.4%
Total number of students	**45,802**	38,498	+7,304	+19.0%

As at 31 December 2018, the aggregate number of students enrolled at the schools of the Group increased to approximately 45,802 from 38,498 as at 31 December 2017. The increase in the aggregate number of students enrolled was attributable to the increases in the capacity of two new schools and certain existing schools.

Students Placement

The Group strives to cultivate well-rounded students who possess global perspective and practical knowledge. The fundamental educational philosophy of the Group is to respect every student's life, stimulate his or her learning potential and care for his or her lifetime achievement based on the Group's people-oriented educational strategy and efficient school management.

The Group provides high-quality education to its students. The Group aspires to provide a pathway to first-tier universities in China and reputable colleges and universities abroad for interested students. For example, for the Gaokao administered in 2016, 2017 and 2018, approximately 87.0%, 94.6% and 94.7%, respectively, of the Group's graduating high school students who participated in such examinations achieved scores that allowed them to apply to and be admitted into the first-tier universities in China, including Peking University, Tsinghua University, Fudan University, Zhejiang University and Shanghai Jiaotong University, among others, and over 62% of our graduating high school students can be admitted into the key universities in China, which refer to universities that were listed as participating universities in Project 211 (211工程) and Project 985 (985工程) initiated by the Ministry of Education of the PRC and the PRC government. In addition, in the 2018 Gaokao, 37 of our graduating high school students were admitted into Peking University and Tsinghua University and 80 of our graduating high school students were recommended for admission into first-tier universities without taking the Gaokao.

Moreover, certain of the Group's high school graduating students were admitted into the reputable colleges and universities overseas in 2018. For example, certain students from Chengdu Foreign Languages School were admitted into Oxford University, Johns Hopkins University. For students who are interested in attending colleges and universities in the United States or Canada, the Group established international programs at Chengdu Foreign Languages School under which PRC/overseas standard high-school curriculum, overseas standardized college entrance examinations, language testing examinations or United States University Advanced Placement course are offered to them. Such programs allow students to take either American or Canadian high-school curriculum taught by foreign teachers as well as PRC high-school curriculum taught by PRC teachers.

Teachers

	As at 31 December 2018	As at 31 December 2017
Total number of teachers	**3,017**	2,618

The Group believes the quality of education provided is strongly tied to the quality of the Group's teachers. The Group considers that teachers who are capable of and are dedicated to teaching will be instrumental in shaping the learning habits of students, which will be crucial to the Group's success and educational philosophy. The Group seeks to hire teachers who (i) demonstrate outstanding teaching track record, (ii) hold necessary academic credentials (i.e. diplomas), (iii) are passionate about education and improving students' academic performance and overall well-being, (iv) demonstrate competence in their subject areas, (v) possess strong communication and interpersonal skills, and (vi) are able to effectively use a variety of teaching tools and methods tailored to their students. As at 31 December 2018, the Group had 3,017 teachers, of which approximately 95.6% have a bachelor's degree or above, and approximately 28.4% have a master's degree or above. The schools operated by the Group employed 32 foreign teachers as at 31 December 2018. Most of the teachers are full-time teachers. The Group also values the recognition bestowed upon the teachers who have achieved teaching excellence. As at 31 December 2018, approximately 14.7% of the teachers held the advanced teaching qualification, and approximately 37 of the Group's teachers were recognized as exceptional teachers. The Group offers mandatory and continuing training courses and seminars to the our teachers and offers mandatory professional teaching technique training course for newly hired teachers.

School Utilization

Utilization rate is calculated as the number of students enrolled divided by the estimated capacity for a given school. Except for our kindergarten, our schools are generally boarding schools. For our boarding schools, the estimated capacity for students is calculated based on the number of beds available in student dormitories. For our kindergarten, the estimated capacity for students is calculated based on the number of beds used for naps in the schools.

	As at 31 December 2018	As at 31 December 2017
Total number of students enrolled	**45,802**	38,498
Total student capacity	**66,840**	59,248
Overall utilization rate	**68.5%**	65.0%

The overall utilization rate increased from 65.0% as at 31 December 2017 to 68.5% as at 31 December 2018. The increase in overall utilization rate is mainly due to: (i) the establishment of two new schools in September 2018 to accommodate 4,000 students. As the new schools only enrolled students at certain grade (for example, the middle and high school only enrolled students of seventh and tenth grades, respectively), the utilization rate for the new schools is relatively low for the first school year and is expected to increase as more new students will be admitted in the next school year; and (ii) the number of new students enrolled has increased in September 2018 in the eight new schools opened in September 2017.

Risk Management

The Group is exposed to various risks in the operations of the Group's business and the Group believes that risk management is important to the Group's 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 fees, the potential expansion of the Group into other regions in Southwest 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 fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly bank balances and bank borrowings which carry interest at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rates of interest so as to minimize the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the Directors 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 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 Group's tuition fees, and to enter into cooperative business relationships with third parties to establish new schools;

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

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

Environment, Health and Safety

The businesses of the Group are not in violation of the applicable PRC Environmental laws and regulations in any material aspects.

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates 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 management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Strategy

The high school market has relatively high entry barriers because the students and parents place more emphasis on the reputation and education quality of high school due to the strong needs of applying for better universities in China. Therefore, as one of the leading K-12 private education providers with reputable high schools in Southwest China, the Group will have more competitive advantages in the K-12 private education market because students and parents tend to enroll in the primary schools operated by such providers at an early age in order to secure the high schools within the same school system in the future. The Group intends to leverage its reputation to expand its school network in Chengdu, other areas in Sichuan Province and elsewhere in Southwest China. Furthermore, with the increase in income and wealth, the middle class families can afford the higher expenditure on high-quality educational service. The Group intends to enhance the Group's profitability by optimizing the pricing of the schools of the Group, diversifying its service offerings and increasing revenue sources. In addition, the Group intends to expand its international programs.

Future development

The Group is optimistic about the strong demand for high-quality private education in Southwest China backed by the strong brand reputation and recognition of our schools. In order to solidify and strengthen its market-leading position in the region, the Group intends to achieve future growth by means of multiple expansion strategies which include asset-light expansions, acquisitions, and increase in the capacity of certain existing schools. Specifically, the Group plans to undertake the following strategies:

1) Establish new asset-light schools by collaborating with third-party business partners;

2) Collaborate with prestigious overseas schools to open new international schools or foundation programs in China;

3) Provide to third party owned K-12 schools comprehensive school management service, including, among others, education quality control, curriculum development, daily operation, teachers recruitment and training, branding, teaching methodology support and campus design; and

4) Collaborate with certain commercial property owners to establish one-stop comprehensive education program.

(i) Establishing new asset-light schools with third-party business partners

Ya'an Campus – commencement of operation expected to be in September 2019

On 15 May 2018, the Group entered into the school establishment agreement with a third party to establish a new middle and high school. The school is expected to accommodate approximately 2,700 students. Under the agreement, the third party shall be responsible for constructing the buildings and facilities and leasing such school premises to the school for the operation of Ya'an Campus. The Ya'an Campus is expected to commence its first school year on 1 September 2019. The lease term for the school premises will be 20 years starting from 1 September 2019 to 31 August 2039. No rental fees will be payable by the Group for the first four years of the rental period.

Yibin campuses – commencement of operation expected to be before September 2020

a) On 30 August 2018, the Group entered into the school establishment agreement with a third party to establish a new school providing primary to high school education. The school is expected to accommodate approximately 5,940 students. Under the agreement, the third party shall be responsible for constructing the building and facilities and leasing such school premises to the school for the operation. The campus is expected to commence its first school year before 1 September 2020. The lease term for the school premises will be 20 years since it commence. No rental fees will be payable by the Group for the first four years of the rental period.

b) On 17 January 2019, the Group entered into a school establishment agreement with an independent third party to establish another campus of Chengdu Institute Sichuan International Studies University in Yibin City. The campus is expected to accommodate approximately 12,000 students. Under the agreement, the third party shall be responsible for developing the land, buildings and facilities and providing such school premises to the school for its operation. The campus is expected to commence its first school year before 1 September 2020.

Longfor Xichen Yuanzhu Campus – commencement of operation expected to be in September 2019

The Group entered into a school establishment agreement with a third party to establish a primary school as the Longfor Xichen Yuanzhu Campus, which will be developed under asset-light business model. The third party shall be responsible for providing and developing the land and building to be used as campus of Longfor Xichen Yuanzhu Campus, and shall lease such premises to the school during the existence of the school. The Longfor Xichen Yuanzhu Campus is expected to accommodate approximately 1,890 students, and to commence its first school year on 1 September 2019.

Deyang Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party to establish a school in the Deyang Campus, providing primary to high school education. The Deyang Campus will be developed under asset-light business model. The third party shall be responsible for providing and developing land and buildings to be used as campus of the Deyang Campus, and shall lease such school premises to the school during the existence of the school. The Deyang Campus is expected to accommodate approximately 6,760 students and to commence its first school year on 1 September 2020.

Luzhou Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party to establish a school in Luzhou, Sichuan Province, providing primary to high school education. The Luzhou Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings, and shall provide such school premises to the school for the operation of Luzhou Campus. The Luzhou Campus is expected to accommodate approximately 5,280 students and to commence its first school year on 1 September 2020.

Xinjin Campus – commencement of operation expected to be in September 2020

The Group entered into a school establishment agreement with a third party, providing primary to high school education. The Xinjin Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings, and shall provide such school premises to the school for the operation of Xinjin Campus. The Xinjin Campus is expected to accommodate approximately 4,920 students and to commence its first school year on 1 September 2020.

Guiyang Campus – commencement of operation expected to be in September 2021

The Group entered into a school establishment agreement with a third party to establish a school in Guiyang, Guizhou Province, providing primary to high school education (including an overseas training and education institution). Guiyang Campus will be developed under asset-light business model. Under the agreement, the third party shall be responsible for providing and developing the land and buildings to the school for the operation of Guiyang Campus. The Guiyang Campus is expected to accommodate approximately 4,650 students and to commence its first school year on 1 September 2021.

Potential cooperation on establishment of new schools

On 4 January 2019, the Group entered into a strategic cooperation agreement with the government of Jintang District, Chengdu, Sichuan Province, to establish a new school providing primary to high school education in Huaizhou New Town, Jintang District.

On 22 February 2019, the Group entered into a school establishment agreement with the government of Qingbaijiang District, to establish a high quality school providing primary to high school education. In addition, the Group agreed to cooperate with all public schools in Qingbaijiang District with respect to, including, among others, school management, teaching research and reform, training of teaching staffs and interaction activities, students exchange activities and international education.

(ii) International school and foundation programs

The Group and Monash College Pty Ltd, a company who provides education courses and programs in Australia and owned by Monash University, entered into an education cooperation agreement on 16 April 2018, pursuant to which both parties agreed to establish a cooperative educational program which mainly covers pre-university education courses through a curriculum exclusive licensing agreement. Both parties agreed to offer such program to students in the PRC. The term of the education cooperation agreement is five years from 2019 to 2023, renewable as agreed by both parties. The Group will start to offer such program to students in 2019.

In addition, the Group is discussing with other prestigious overseas schools or institutions on exploring the possibility of opening new international schools, foundation programs and deep cooperation in China. As at the date of this annual report, no definitive agreements have been entered into.

(iii) Education management and consultation service

In February 2019, the Group entered into school management cooperation agreements with government owned public schools under which the Group will provide school management service including, among others, teacher's trainings, student recruitment, performance review of principal, and marketing activities to the public schools.

(iv) One stop comprehensive education program

The Group has been cooperating with certain commercial property owners to establish one-stop comprehensive education program in commercial complex with a floor area of approximately 5,000-10,000 square meters where various types of tailor-made education services will be offered to both the parents and their kids simultaneously. The high-quality education courses offered include, among others, Chinese traditional culture, STEAM (Science, Technology, Engineer, Arts and Mathematics), after-school English tutoring and sports. The first complex is scheduled to open in Chengdu in 2019.

The Group opened two new schools in Qu County, Dazhou, Sichuan Province in September 2018. The following sets forth a summary of the estimated student capacity of the new school campuses opened or to be opened from September 2018 to September 2021:

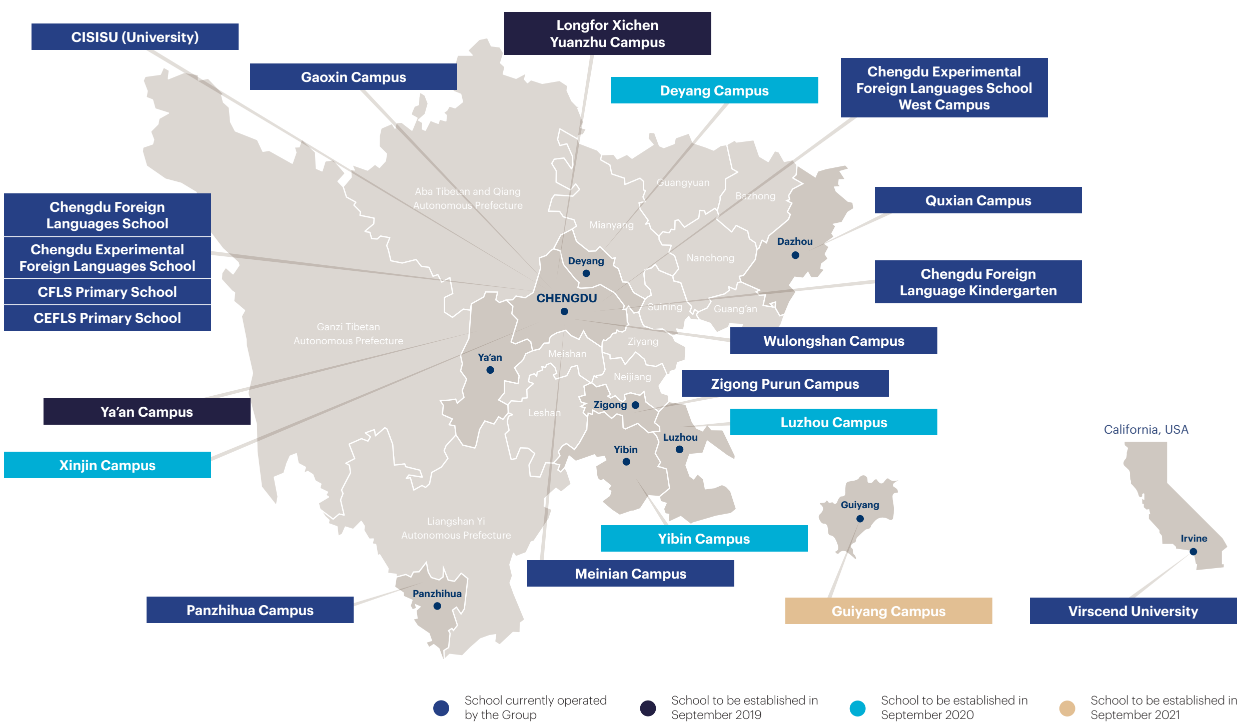
School campus	Commencement of school campus	Estimated student capacity
Quxian Campus	September 2018	4,000
Longfor Xichen Yuanzhu Campus	September 2019	1,890
Ya'an Campus	September 2019	2,700
Yibin campuses	September 2020	17,940
Deyang Campus	September 2020	6,760
Luzhou Campus	September 2020	5,280
Xinjin Campus	September 2020	4,920
Guiyang Campus	September 2021	4,650
Total		48,140

The Group had added two new schools in the school network in 2018/2019 school year. For illustration purpose, the school which provides multi-phases education programs is counted according to the number of the category of such education phases. For example, Chengdu Foreign Languages School which provides middle and high school education phases is counted as one middle school and one high school respectively. The following table shows a summary of the number of our schools by category as of the dates indicated:

Category of schools	Schools established as at 31 December 2018	Schools established as at 31 December 2017
High school	8*	7*
Middle school	7	6
Primary school	5	5
Kindergarten	2	2
University	2	2
	24	22

* Gaoxin Campus, the school sponsor's interest of which is owned as to 20% by the Group, is included in the high school.

OUR SCHOOL NETWORK IN SOUTHWEST CHINA AND USA



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

Revenue, which is also the Group's turnover, represents the value of services rendered, after deducting scholarships granted and refunds made to its students during the Reporting Period. Revenue of the Group primarily derived from tuition fees and boarding fees the Group's schools collected from students, as well as management service fees and consultation service fees received by the Group respectively from an associated school and an independent third party during the Reporting Period.

Revenue increased by RMB215.2 million, or 22.6%, from RMB952.8 million for the year ended 31 December 2017 to RMB1,168.0 million for the Reporting Period. This increase was primarily the result of revenue from tuition fees increased by RMB209.1 million, or 22.9%, from RMB911.5 million for the year ended 31 December 2017 to RMB1,120.6 million for the Report Period. The tuition fees the Group received increased mainly due to the increase in the number of students enrolled in 2018/2019 school year, the increase in the capacity of schools, and the two or more grade of students enrolled in 2018/2019 school year comparing to the last school year.

Cost of Sales

Cost of sales primarily consists of staff costs, depreciation and amortization, cost of co-operative education, utilities, cost of repairs, office expense, student subsidies and other costs.

Cost of sales increased by RMB168.0 million, or 33.7%, from RMB498.7 million for the year ended 31 December 2017 to RMB666.7 million for the Reporting Period. This increase was primarily the result of an increase in staff costs, depreciation and amortization. Staff costs increased by RMB78.6 million, or 24.5%, from RMB320.2 million for the year ended 31 December 2017 to RMB398.8 million for the Reporting Period, primarily as a result of increased salaries and benefits payable to the Group's teachers. Depreciation and amortization increased by RMB46.4 million, or 57.9%, from RMB80.1 million for the year ended 31 December 2017 to RMB126.5 million for Reporting Period, mainly as a result of: (i) transfer of fixed assets at Wenjiang Campus; (ii) additional purchases of fixed assets by the schools of the Group; and (iii) the renovation of the middle school campus of Chengdu Foreign Languages School of the Group.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB47.2 million, or 10.4%, from RMB454.1 million for the year ended 31 December 2017 to RMB501.3 million for the year ended 31 December 2018, which was in line with the growth of the Group's business. Gross profit margin decreased to 42.9% for the Reporting Period from 47.7% for the year ended 31 December 2017 mainly due to the increase in teachers' salaries and benefits, as well as the increase in depreciation costs of fixed assets of the Group.

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 RMB2.0 million, or 55.6%, from RMB3.6 million for the year ended 31 December 2017 to RMB5.6 million for the Reporting Period. The increase of selling and distribution expenses was primarily due to the increase in student admission expenses and advertising expenses for the eight new schools opened in 2017 and the two new schools opened in 2018.

Administrative Expenses

Administrative expenses primarily consist of the salaries and other benefits paid for general and administrative staff, office-related expenses, depreciation of office buildings and equipment, travel expenses and other expenses. Administrative expenses increased by RMB25.2 million, or 31.0%, from RMB81.4 million for the year ended 31 December 2017 to RMB106.6 million for the Reporting Period, primarily due to the increase in salaries and benefits payable to the Group's administrative staffs.

Other Income and Gains

Other income and gains primarily consist of foreign exchange gain, interest income and rental income from leasing certain of the properties to independent third parties. Other income and gains increased by RMB26.7 million, or 164.8%, from RMB16.2 million for the year ended 31 December 2017 to RMB42.9 million for Reporting Period. The increase was primarily attributable to: (i) an interest income of RMB11.5 million was recognized for the Reporting Period, representing an increase of RMB8.1 million from the interest income of RMB3.4 million recognized for the year ended 31 December 2017; (ii) a net foreign exchange gain of RMB7.3 million recognized for the Reporting Period, while no foreign exchange gain was recognized for the year ended 31 December 2017; and (iii) gain of RMB10.5 million for the Reporting Period, representing the amount derived from derecognition of contingent consideration related to acquisition of an associate.

Other Expenses

Other expenses consist primarily of foreign exchange loss and disposal of various fixed assets. Other expenses decreased from RMB25.6 million for the year ended 31 December 2017 to RMB9.7 million for the Reporting Period. Such decrease was primarily due to the net foreign exchange loss of RMB24.8 million generated from the translation of the Hong Kong dollars bank deposits resulted from the appreciation of RMB against HKD for the year ended 31 December 2017, while no foreign exchange loss was recognized for the Reporting Period.

Finance Costs

Finance costs primarily consist of the interest expenses for bank borrowings. Finance costs increased by RMB12.3 million, or 32.1%, from RMB38.3 million for the year ended 31 December 2017 to RMB50.6 million for the Reporting Period, mainly attributable to (i) the interest expenses for the bank loans of RMB54.0 million for the Reporting Period, representing an increase of RMB1.2 million as compared to the interest expenses of RMB52.8 million for the year ended 31 December 2017; and (ii) the capitalized interest of RMB3.4 million recognized for the completion and commencement of Wenjiang Campus in 2018, while the capitalized interest of RMB14.5 million was recognized for the year ended 31 December 2017.

Core Net Profit

Core net profit was derived from the profit for the year after adjusting the foreign exchange gain or loss, which is not indicative of the Group's operating performance. This is not an IFRSs measure. The Group has presented 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	**363,161**	314,865
Add:		
Foreign exchange loss	**—**	24,759
Less:		
Foreign exchange gain	**7,286**	—
Core net profit	**355,875**	339,624

Core net profit increased by RMB16.3 million, or 4.8%, from RMB339.6 million for the year ended 31 December 2017 to RMB355.9 million for the Reporting Period.

Capital Expenditure

Capital expenditure during the Reporting Period primarily related to constructing Wenjiang campus, maintaining, leasehold improvements and upgrading the existing school premises and purchasing educational facilities and equipment for the Group's schools. Capital expenditure decreased by RMB256.3 million, from RMB671.7 million for the year ended 31 December 2017 to RMB415.4 million for the Reporting Period, mainly attributed to (i) the Group incurred capital expenditure of RMB68.0 million in 2018 for the construction of Wenjiang Campus, representing a decrease of RMB615.3 million as compared to the capital expenditure of RMB683.3 million; (ii) capital expenditure of RMB185.8 million in 2018 for leasehold improvements to old campuses, representing an increase of RMB185.8 million while no capital expenditure on leasehold improvements was incurred for the year ended 31 December 2017; and (iii) an increase of RMB173.2 million in expenditure on upgrading the existing school premises, purchasing educational facilities and equipment during the Reporting Period.

Liquidity and Financial Resources

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash flows from operating activities	**712,627**	521,616
Net cash flows used in investing activities	**(253,947)**	(503,054)
Net cash flows used in financing activities	**(106,109)**	(285,591)
Net (decrease)/increase in cash and cash equivalents	**352,571**	(267,029)
Cash and cash equivalents at beginning of year	**294,107**	564,196
Effect of foreign exchange rate changes, net	**(7,286)**	(3,060)
Cash and cash equivalents at end of year	**639,392**	294,107

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Interest-bearing bank borrowings	**1,082,000**	919,037

Analysis of the maturity profile of the interest-bearing bank borrowings of the Group as at 31 December 2018 and 2017 is set out in note 21 to the 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 borrowings were settled in RMB, while cash and cash equivalents were primarily held in RMB and HKD. 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 borrowings as at 31 December 2018 were at fixed interest rates or floating interest rates for loans denominated in RMB.

Capital Commitments

The Group had the following capital commitments at the end of each of the following reporting periods:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings, equipment	**19,741**	13,811
Capital contributions payable to an associate	—	6,900
	19,741	20,711

Operating Lease Commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 1 to 20 years. As at the end of each of the following reporting periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within one year	**20,975**	12,747
In the second to fifth years, inclusive	**34,096**	10,245
Beyond five years	**63,284**	15,746
	118,355	38,738

As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases amounting to RMB118.4 million. Certain of our schools have renewed the continuing lease agreements and arrangements with our connected persons in March and September 2018 to lease certain buildings for use in the operation of the respective schools for a period of 2 years to 2.5 years. The increase of total future minimum lease payments under non-cancellable operating leases was firstly, because of increase in unit rental fees, which mainly contribute to the increase in less than five years. Secondly, because of the 20 years of rental period of those new asset-light schools with third-party business partners opened in 2018 and those would be opened the next two years, described in "Future development", which contribute to the increase of payment beyond five years increased RMB47.5 million according.

Future Plan for Material Investments and Capital Assets

Save as disclosed in the Prospectus and this annual report, the Group did not have other plans for material investments and capital assets.

Gearing Ratio

The gearing ratio of the Group, which was calculated as total bank borrowings divided by total equity as at the end of the relevant financial year, increased from approximately 34.3% as at 31 December 2017 to approximately 38.2% as at 31 December 2018, primarily due to the increase in the Group's interest-bearing bank borrowings.

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.

Foreign Exchange Risk Management

The functional currency of the Company is 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 Reporting Period, 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 had no material contingent liabilities.

Human Resources

As at 31 December 2018, the Group had 4,301 employees (2017: 3,613 employees).

The remuneration policy and package of the Group's employees are periodically reviewed in accordance with industry practice and results performance of the Group. The Group also 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 RMB466.5 million (2017: RMB368.3 million).

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Ms. Wang Xiaoying (王小英), aged 56, was appointed as the Chairwoman of the Board and an executive Director on 31 August 2015. Ms. Wang has more than 15 years of experience in business management and is responsible for the overall management and strategic development of the Group. Ms. Wang has been a director of certain of the PRC Operating Entities since Ms. Wang joined the Group in April 2004. Ms. Wang has been responsible for the overall business strategy and development and management of the PRC Operating Entities in her capacity serving as the general manager of the education sector of Sichuan Derui since January 2008. In August 1999, Ms. Wang joined Sichuan Derui as the vice general manager responsible for general administration. In January 2008, Ms. Wang was then re-designated as the general manager of Sichuan Derui in charge of the education sector and has since been responsible for the overall management and strategic development of the PRC Operating Entities. Ms. Wang graduated from Chengdu City No.32 Middle School* (成都市第三十二中學校) in July 1979. Ms. Wang is the spouse of Mr. Yan Yude, the chief executive officer and an executive Director of the Company and one of the Controlling Shareholders.

Mr. Ye Jiayu (葉家郁), aged 59, was appointed as an executive Director on 31 August 2015. Mr. Ye has more than 22 years of experience in business management and is responsible for the campus safety management of all schools operated by the Group. Mr. Ye is also a supervisor of Tibet Huatai. Mr. Ye joined the Group as a director of certain of the PRC Operating Entities since September 2000. Since January 1993, Mr. Ye has joined Sichuan Derui and currently serves as an executive director of Sichuan Derui and is responsible for the overall management of Sichuan Derui. Mr. Ye obtained his diploma in mechanics from Sichuan Radio and TV University* (四川廣播電視大學) in the PRC in August 1985.

Mr. Yan Yude (嚴玉德), aged 57, was appointed as a Director on 13 March 2015, was designated as an executive Director on 31 August 2015, and appointed as the chief executive officer of the Company with effect from 15 November 2018. Mr. Yan is also one of the Controlling Shareholders and a director of certain of the subsidiaries of the Group. Mr. Yan has over 20 years of experience in business management and is responsible for the overall strategic development of the Group. Mr. Yan has been a director of the PRC Operating Entities since September 2000. In January 1993, Mr. Yan made the investment in Sichuan Derui and remained as the controlling shareholder of Sichuan Derui since then. Mr. Yan joined Sichuan Derui in 1993 after he invested into Sichuan Derui and was involved in the overall management and strategic development of Sichuan Derui. Mr. Yan obtained his graduation certificate for postgraduate studies in criminology from the Sichuan University* (四川大學) in the PRC in July 1999. Mr. Yan is the husband of Ms. Wang Xiaoying, an executive Director.

Mr. Deng Bangkai (鄧幫凱), aged 37, was appointed as an executive Director and the chief operating officer on 15 November 2018. Mr. Deng has over 13 years of experience in auditing and finance management and is responsible for day-to-day operations and external communications and publications. Mr. Deng started his career in Ernst & Young Hua Ming LLP Shenzhen Office in August 2005 and subsequently resigned in October 2018, where his last position was partner. Mr. Deng obtained his bachelor degree in computer science from Shanghai University of Electric Power in the PRC in June 2003 and his master of science degree with commendation in management science from University of Hertfordshire in Great Britain in October 2004. Mr. Deng is a member of the Hong Kong Institute of Certified Public Accountants and a member of The Chinese Institute of Certified Public Accountants.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sit Chiu Wing (薛超穎), aged 68, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, in December 1981, Mr. Sit joined and worked at the Marketing Department of Shaws Brothers (Hong Kong) Company Limited (邵氏兄弟 (香港) 有限公司). Mr. Sit has been appointed as the honorary president of Hong Kong Quanzhou Associations Limited since March 2001. Mr. Sit graduated from the Fujian Normal University* (福建師範大學) of the PRC with a bachelor's degree in history in July 1976.

Mr. Chan Kim Sun (陳劍燊), aged 37, was appointed as an independent non-executive Director on 28 December 2015 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, between October 2004 to March 2010, Mr. Chan joined an established firm of certified public accountants as an accountant before being promoted as audit manager in April 2008. From August 2011 to September 2014, Mr. Chan served as finance controller and from September 2012 to September 2014 as company secretary of a company primarily engaged in properties investment, sales of natural gas and investment holding and the shares of which are listed on the Stock Exchange. Mr. Chan is currently a non-practicing member of the Hong Kong Institute of Certified Public Accountants and is a fellow of the Association of Chartered Certified Accountants. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree in business administration majoring in accounting and finance in June 2003.

Mr. Wen Ruizheng (温瑞征), aged 74, was appointed as an independent non-executive Director on 15 November 2018 and is responsible for providing independent opinion and judgement to the Board. Prior to joining the Group, Mr. Wen has over 50 years of experience in education industry. Mr. Wen has excellent ability and abundant work experience in education management. Mr. Wen served as the secretary of the principal and the director of Students Affairs Office at Chengdu Experimental Foreign Language School (成都市實驗外國語學校) (formally known as Chengdu Xixiang Road Middle School* (成都市西鄉路中學) and Chengdu No.48 Middle School (成都市四十八中)) from February 1965 to August 1984. He served as the vice principal and principal of Chengdu Experimental Foreign Languages School (成都市實驗外國語學校) from August 1984 to August 1987 and from August 1987 to July 2014, respectively. Mr. Wen obtained his junior college diploma in political science from the Party College of Chengdu Municipal Party Committee* (中共成都市委黨校) in July 1987. He obtained the qualification of senior teacher of middle school in Sichuan Province* (四川省中學高級教師). He also obtained various honorary titles from relevant government authorities, including, among others, the "Excellent Principal in Chengdu City"* (成都市優秀校長) and the "Excellent Educator in Chengdu City"* (成都市優秀教育工作者).

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Gu Daili (古代禮), aged 46, ioined the Group in November 2018 and was appointed as a vice president of the Company on 21 November 2018. Mr. Gu is primarily responsible for supervising overall performance of teaching quality of all schools operated by the Group. Prior to joining the Group, Mr. Gu has over 25 years of experience in education industry. Mr. Gu has excellent teaching ability and abundant work experience in education management. Mr. Gu served successively as teacher, dean of students, and principal at Ningnan County Liucheng Middle School* (寧南縣六城中學) from July 1992 to November 1997, from November 1997 to September 1998 and from September 1998 to April 2003. He served as principal of Ningnan County national middle school* (寧南縣民族中學) and Ningnan County Middle School* (寧南縣初級中學) from April 2003 to April 2005 and from April 2005 to August 2009. He served as deputy director and director of Ningnan County Education Bureau* (寧南縣教育局) from August 2009 to March 2012 and from March 2012 to May 2015. He served as secretary of Ningnan County Bureau of Education, Science, Technology and Intellectual property* (寧南縣教育和科學技術知識產權局) from May 2015 to November 2016. He served as municipal propaganda minister and standing committee of Ningnan County Committee of the Communist Party of China* (中共寧南縣委) from November 2016 to October 2018. Besides, he served as chairman of social science union of Ningnan County from April 2017 to October 2018. Mr. Gu obtained his junior college diploma in teaching from Mianning Normal School* (冕寧師範學校) in July 1992. He received bachelor degree in administration management from the Party College of Sichuan Provincial Party Committee*(中共四川省委黨校) in December 2002.

Ms. Yan Hongjia (嚴弘佳), aged 32, was appointed as a vice president of the Company on 21 November 2018. Ms. Yan is primarily responsible for the international school, preschool business and comprehensive education solutions tailored for the customers. Prior to joining the Group, Ms. Yan served as an instructor in York University and a center manager engaged in establishment of data consulting center of York University. Ms. Yan had participated in providing consultation services to fortune 500 companies for many times. During the working period, Ms. Yan accumulated rich experience in teaching and research, and got familiar with international education system.

Ms. Yan graduated from Hong Kong Baptist University with a bachelor of operations research and statistic degree in 2009, and subsequently obtained her master degree in operations research and business statistic from Hong Kong Baptist University in 2010. Ms. Yan obtained her doctor degree in statistic from York University where she was granted a full scholarship, and published academic papers and research reports in world's top academic journals when pursuing her doctor degree. Ms. Yan also serves as an associate researcher of Chengdu Institute Sichuan International Studies University.

Ms. Yan is the daughter of Mr. Yan Yude, the executive Director and chief executive officer of the Company.

Mr. Li Jun (李俊), aged 32, was appointed as financial controller of the Company on 21 November 2018. Mr. Li is responsible for financial management and providing financial analysis for investment and mergers and acquisition of the Group to the Board. Mr. Li started his career in Ernst & Young Hua Ming LLP Chengdu Office in October 2012 and subsequently resigned in August 2018, where his last position was audit manager. Mr. Li received bachelor degree in Medicine from Anhui Medical University*(安徽醫科大學) in June 2009, and master degree in Economics from Southwestern University of Finance and Economic*(西南財經大學) in June 2012. He is a non-practising member of The Chinese Institute of Certificated Public Accountants.

* *for identification purpose only*

REPORT OF DIRECTORS

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the Reporting Period.

GLOBAL OFFERING

The Company was incorporated on 13 March 2015 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange on 15 January 2016.

PRINCIPAL ACTIVITIES

The Company is the leading provider of K-12 private education services in Southwest China. Analysis of the principal activities of the Group during the year ended 31 December 2018 is set out in note 1 to the financial statements.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2018 are set out in note 1 to the 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 on page 88 of this annual report.

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 9 to 25 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 31 to the financial statements and in the section headed "Management Discussion and Analysis" of this annual report. The relevant risk management and control measures are set out in the paragraph headed "Risk Management and Internal Controls" in the corporate governance report.

ENVIRONMENT, HEALTH AND SAFETY

The businesses of the Group are not in violation of the applicable PRC Environmental laws and regulations in any material aspects.

The Group is dedicated to protecting the health and safety of the students. The Group has on-site medical staff or health care personnel at each of the schools the Group operates 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 management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

FINAL DIVIDENDS

The Board recommended the payment of a final dividend of HK4.0 cents per share for the year ended 31 December 2018. The final dividend is subject to the approval of the Shareholders at the forthcoming annual general meeting of the Company to be held on 21 June 2019 (the "**AGM**") and the final dividend will be payable on or around 31 July 2019 to the Shareholders whose names appear on the register of members of the Company on 2 July 2019.

There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

DIVIDEND POLICY

When determining distribution of dividends, the Board adopted such policy to share the profits of the Company with the Shareholders, while preserving sufficient reserves for the Company's future development.

The Company shall assess its dividend policy and distribution in any given year based on its financial condition, the current economic environment and expectations of future macroeconomic environment and business performance. The Board must take into account the following factors before any declaration of distribution or dividend recommendation:

- The actual and expected financial results of the Company;
- Retained earnings and distributable reserves of the Company and its subsidiaries;
- Expected working capital requirements, capital expenditure requirements and future expansion plans of the Group;

- Liquidity position of the Group;
- any legal restrictions and restrictions under the financing agreements of the Company, including any financing agreements that may be entered into by the Company in the future; and
- Other factors that the Board considers relevant.

The Company's payment of dividends is also subject to applicable laws and regulations, including the Cayman Islands Laws and the Articles of Association. The Board will review this dividend policy from time to time and does not guarantee that any particular amount of dividend will be paid in any given period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 June 2019 to 21 June 2019, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on 21 June 2019, during which period no share transfers will be registered. To be eligible to attend the AGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 17 June 2019.

The register of members of the Company will also be closed from 27 June 2019 to 2 July 2019, both days inclusive, in order to determine the entitlement of the Shareholders to receive the final dividend, during which period no share transfers will be registered. To qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 26 June 2019.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years is set out in the section headed "Financial Highlights" on pages 5 to 6 of this annual report. This summary does not form part of the audited consolidated financial statements.

USE OF NET PROCEEDS FROM LISTING

Net proceeds from the Listing (after deducting underwriting fee and relevant expenses) amounted to approximately HK$1,932.4 million (RMB1,629.2 million). As of 31 December 2018, a total amount of HK$1,932.4 million (RMB1,629.2 million) out of the net proceeds had been used by the Group according to the allocation set out in the Prospectus. The following sets forth a summary of the utilization of the net proceeds:

Purpose	Percentage to total amount	Net proceeds RMB (million)	Utilised amount (at 31 December 2018) RMB (million)	Unutilised amount (at 31 December 2018) RMB (million)
Cooperate with independent third parties to jointly establish new schools, purchase the relevant land use rights to develop new schools, and acquire existing schools	49.1%	800.4	800.4	—
Repay the existing short-term bank borrowings	21.3%	348.0	348.0	—
Establish a teacher and staff training and development center	20.4%	331.6	331.6	—
Fund the working capital and general corporate purposes	9.2%	149.2	149.2	—
Total	100.0%	1,629.2	1,629.2	—

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended 31 December 2018, the Group's customers primarily consist of the Group's students and their parents. 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 76.2% of the Group's total purchases and the Group's single largest supplier accounted for 51.4% of the Group's total purchases.

For the year ended 31 December 2018, 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 of the Company) had any interest in the Group's five largest 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 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 23 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2018 are set out in the consolidated statement of changes in equity on page 92 of this annual report and note 24 to the financial statements.

CHARITABLE DONATIONS

During the year ended 31 December 2018, no charitable donations have been made by the Group.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserve available for distribution was nil (as at 31 December 2017: nil).

INTEREST-BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2018 are set out in note 21 to the financial statements.

DIRECTORS

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

Executive Directors:

Ms. Wang Xiaoying (Chairwoman of the Board)
Mr. Xu Ming (resigned on 15 November 2018)
Mr. Ye Jiayu
Mr. Yan Yude
Mr. Deng Bangkai (appointed on 15 November 2018)

Independent Non-executive Directors:

Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Ms. Xu Dayi (resigned on 15 November 2018)
Mr. Wen Ruizheng (appointed on 15 November 2018)

In accordance with article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting. Accordingly, Mr. Deng Bangkai and Mr. Wen Ruizheng shall hold office till the AGM and then be eligible for re-election at the AGM.

In accordance with article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation at each annual general meeting of the Company and shall then be eligible for re-election. Accordingly, Ms. Wang Xiaoying, Mr. Ye Jiayu and Mr. Chan Kim Sun shall retire by rotation, and being eligible, have offered themselves for re-election at the AGM.

Details of the Directors to be re-elected at the AGM are set out in the circular to the Shareholders dated 30 April 2019.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 26 to 28 of this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to rule 3.13 of the Listing Rules from each of the independent non-executive Directors (including Mr. Wen Ruizheng, who was appointed on 15 November 2018) and the Company considers such Directors to be independent throughout the year ended 31 December 2018 and remain so as of the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Yan Yude and Mr. Deng Bangkai, being the executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date, Listing Date, Listing Date and 15 November 2018, respectively, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of Mr. Sit Chiu Wing and Mr. Chan Kim Sun and Mr. Wen Ruizheng, being the independent non-executive Directors, has entered into a letter of appointment with the Company for an initial fixed term of one year commencing from the Listing Date, Listing Date and 15 November 2018, respectively, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

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

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

Save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, no Directors or their connected entity (within the meaning in section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2018.

Apart from the contract relating to the reorganization of the Group in relation to the Listing and save as disclosed in the section headed "Non-exempt Continuing Connected Transaction" and otherwise disclosed in this annual report, none of the Controlling Shareholders or any of their connected entity (within the meaning of section 486 of the Companies Ordinance) had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2018.

No contract of significance for the provision of services to the Company or any of its subsidiaries or fellow subsidiaries by the Controlling Shareholders or any of their subsidiaries was entered into during the year ended 31 December 2018.

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 year ended 31 December 2018.

EMOLUMENT POLICY

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

The Directors and senior management may also receive options to be granted under the Share Option Scheme. For further details of the Share Option Scheme, please refer to the section headed "Share Option Scheme" of this annual report.

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

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

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 of the Listing Rules were as follows:

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Mr. Yan Yude(1)	Interest in a controlled corporation Interest of spouse	1,359,956,045	Long position	44.03
Ms. Wang Xiaoying(2)	Interest of spouse Interest in a controlled corporation	1,359,956,045	Long position	44.03

Notes:

(1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in 1,292,456,045 Shares held by Virscend Holdings. Mr. Yan Yude is also the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in 67,500,000 Shares held by Ms. Wang Xiaoying through Smart Ally.

(2) Ms. Wang Xiaoying is the sole shareholder and director of Smart Ally and she is therefore deemed to be interested in 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is also the wife of Mr. Yan Yude and is therefore deemed to be interested in 1,292,456,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.

Save as disclosed above, as at 31 December 2018, 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 by the Company 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 disclosed in the section headed "Share Option Scheme" of 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 31 December 2018, to the best knowledge of the Directors, the following persons (other than being a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of Interest	Number of Shares	Long/short position	Approximate Percentage of Shareholding in the Company (%)
Virscend Holdings	Beneficial owner	1,292,456,045	Long position	41.84
Mr. Yan Yude[1]	Interest in a controlled corporation and interest of spouse	1,359,956,045	Long position	44.03
Ms. Wang Xiaoying[2]	Interest of spouse and interest in a controlled corporation	1,359,956,045	Long position	44.03
Bank of China Limited	Security interest	458,876,100	Long position	14.86
China First Capital Group Limited[3]	Beneficial owner, Interest in a controlled corporation	407,673,000	Long position	13.20
Happy Venus Limited[4]	Beneficial owner	178,572,129	Long position	5.78
Ms. Yan Hongjia[4]	Interest in a controlled corporation	178,572,129	Long position	5.78

Notes:

(1) Mr. Yan Yude is the sole shareholder and sole director of Virscend Holdings and he is therefore deemed to be interested in the 1,292,456,045 Shares held by Virscend Holdings. Mr. Yan Yude is the husband of Ms. Wang Xiaoying and is therefore deemed to be interested in the 67,500,000 Shares indirectly held by Ms. Wang Xiaoying through Smart Ally.

(2) Ms. Wang Xiaoying is the sole shareholder of Smart Ally and she is therefore deemed to be interested in the 67,500,000 Shares held by Smart Ally. Ms. Wang Xiaoying is the wife of Mr. Yan Yude and she is therefore deemed to be interested in the 1,292,456,045 Shares indirectly held by Mr. Yan Yude through Virscend Holdings.

(3) First Capital Asset Management Limited is wholly owned by First Capital Group Limited, which is in turn wholly owned by China First Capital Group Limited. Therefore, China First Capital Group Limited is deemed to be interested in 24,756,000 Shares held by First Capital Asset Management Limited. China First Capital Group Limited is also the beneficial owner of 382,917,000 Shares.

(4) Ms. Yan Hongjia is the sole shareholder and sole director of Happy Venus Limtied and she is therefore deemed to be interested in the Shares held by Happy Venus Limited.

Save as disclosed above, as at 31 December 2018, 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 the Share Option Scheme on 28 December 2015 ("**Adoption Date**") for the purpose of giving the eligible persons an opportunity to have a personal stake in the Company and help motivate them to optimize their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

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

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, which is 300,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the over-allotment option granted by the Company, representing approximately 9.71% of the issued shares as at the date of this annual report.

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

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

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

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

The Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such expiry and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The remaining life of the Share Option Scheme is around 6 years and 9 months.

Since the Adoption Date, no options under the Share Option Scheme have been granted, exercised, lapsed or cancelled.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" of this annual report, during the year ended 31 December 2018, neither the Company nor any of its subsidiaries had entered into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

REPORT OF DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

NON-COMPETITION UNDERTAKING

As of 31 December 2018, the Controlling Shareholders 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. Yan Yude has provided certain non-competition undertaking in favor of the Company. For details of the Non-Competition Undertaking, please refer to the Prospectus.

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

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

Save as disclosed in this annual report, during the year ended 31 December 2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTION

During the year ended 31 December 2018, the Group has entered into the following continuing connected transactions pursuant to Chapter 14A of the Listing Rule:

Continuing connected transactions

(1) Property Lease Agreements

On 1 March 2018, Chengdu Foreign Languages School, a consolidated affiliated entity of the Group entered into a new lease agreement ("**New Lease Agreement**") with Sichuan Derui, pursuant to which Sichuan Derui agreed to lease certain properties to Chengdu Foreign Languages School for its middle school operation.

Reference is made to the Prospectus in relation to the respective lease agreements entered into between each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School and Sichuan Derui on 7 September 2015 (collectively, the "**Previous Lease Agreements**"). Upon expiration of the Previous Lease Agreements, on 7 September 2018, each of Chengdu Foreign Languages School and Primary School Attached to the Chengdu Foreign Languages School entered into a new lease agreement with Sichuan Derui, respectively, to renew the Previous Lease Agreements (collectively, the "**2018 Lease Agreements**").

The table below sets out the details regarding the New Lease Agreement and 2018 Lease Agreements (together, "**Property Leases Agreements**"):

	Lessee	Lessor	Duration of the Lease	Description and use of the property leased	Annual amount paid for the year ended 31 December 2018 RMB'000
New Lease Agreement	Chengdu Foreign Languages School	Sichuan Derui[1]	For a period of two years and a half commencing on 1 March 2018, with option to renew exercisable by Chengdu Foreign Languages School at any time during the term of the lease by written notice	Four properties comprising various buildings used as teaching complex, dormitory and canteen with total gross floor area of approximately 60,521.55 sq.m.	2,513
2018 Lease Agreements	Chengdu Foreign Languages School	Sichuan Derui	For a period of two years commencing on 7 September 2018, with option to renew exercisable by Chengdu Foreign Languages School at any time during the term of the lease by written notice	14 properties comprising various buildings used primarily as teaching complex, dormitory and canteen with total gross floor area of approximately 100,031.00 sq.m.	6,332
	Primary School Attached to the Chengdu Foreign Languages School	Sichuan Derui	For a period of two years commencing on 7 September 2018, with option to renew exercisable by the Primary School Attached to the Chengdu Foreign Languages School at any time during the term of the lease by written notice	Nine properties comprising various buildings used as teaching complex dormitory and canteen with total gross floor area of approximately 34,316.12 sq.m.	2,198

Notes:

(1) The lease agreement between Sichuan Derui and Chengdu Experimental Foreign Languages School as disclosed in the Prospectus was terminated by the parties on 28 February 2018, the total amount paid to Sichuan Derui for the two months ended 28 February 2018 under such lease agreement was RMB502,620.

The rental payable per annum for the New Lease Agreement was arrived at after arm's length negotiation between the Group and Sichuan Derui with reference to the prevailing market conditions and the rental levels of similar properties in the vicinity of the leased premises. The rental payable per annum for each of the 2018 Lease Agreements was arrived at after arm's length negotiation between the Group and Sichuan Derui with reference to the historical rents paid for the relevant properties pursuant to the Previous Lease Agreements and the prevailing market conditions and the rental levels of similar properties in the vicinity of the leased premises. Each of the relevant PRC Operating Entities may renew the respective Property Lease Agreements at any time during the lease term of the respective Property Lease Agreements for another three years on the same terms as the Property Lease Agreements. Each of the relevant PRC Operating Entities may unilaterally terminate the respective Property Lease Agreements during the lease term. In addition, pursuant to the Property Lease Agreements, Sichuan Derui agreed that Sichuan Derui shall not transfer any of the properties under the Property Lease Agreements unless with the prior written consent of the relevant PRC Operating Entities, provided also that the relevant PRC Operating Entities are satisfied with the performance of Sichuan Derui under the Property Lease Agreements and the new lessor has the ability to satisfy the obligations under the Property Lease Agreements and guarantees that the new lease agreement will be on the same terms and conditions with the Property Lease Agreements. Furthermore, each of the relevant PRC Operating Entities has been granted a right of first refusal to acquire the properties at fair market value if the lessor intends to transfer any property under the Property Lease Agreements.

Mr. Yan Yude is a Director and a Substantial Shareholder, and therefore a connected person of the Company under Rule 14A.07(1) of the Listing Rules. Sichuan Derui is owned as to 69.44% by Mr. Yan Yude and hence an associate of Mr. Yan Yude and a connected person of the Company.

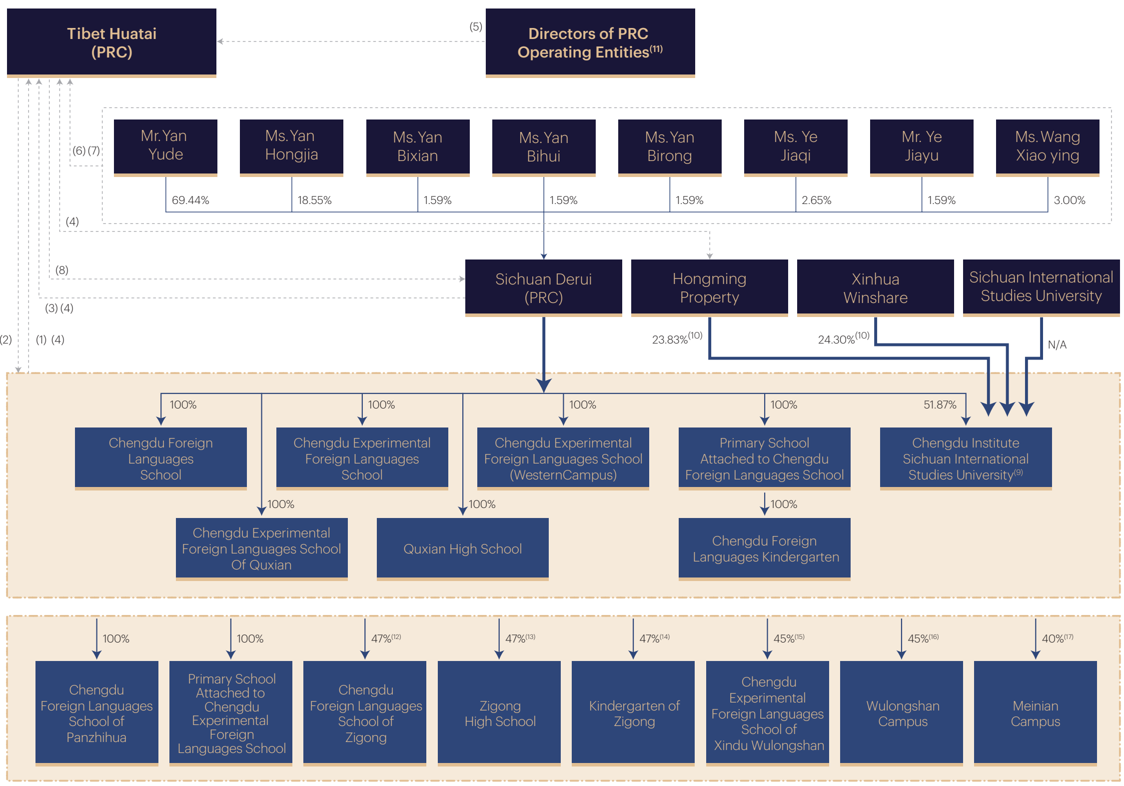
(2) Structured Contracts

A. Overview

The Group currently conducts its private education business through the PRC Operating Entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of preschools, high schools and higher education institutions to Sino-foreign ownership, in addition to imposing qualification requirements on the foreign owners. The Company does not hold any equity interest in the PRC Operating Entities. The Structured Contracts, through which the Company obtains control over and derives the economic benefits from the PRC Operating Entities, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations.

To comply with the above mentioned PRC laws and regulations, at the same time, advancing the Group's access to the international capital markets and effectively control of all of the operations, Tibet Huatai entered into various agreements that constitute the Structured Contracts with, among others, the PRC Operating Entities, under which all economic benefits arising from the business of the PRC Operating Entities are transferred to Tibet Huatai by means of services fees payable by the PRC Operating Entities to Tibet Huatai (subject to approval under PRC laws and regulations).

The following simplified diagram illustrates the flow of economic benefits from the PRC Operating Entities to the Group stipulated under the Structured Contracts as at the date of this annual report:



* *For identification purpose only*

Notes:

1. Payment of service fees.

2. Provision of exclusive technical and management consultancy services.

3. Exclusive call option to acquire all or part of the school sponsor's interest of Sichuan Derui in the PRC Operating Entities.

4. Entrustment of school sponsors' rights in the PRC Operating Entities by Sichuan Derui, Sichuan Hongming Property Co., Ltd.* (四川弘明置業有限公司) ("**Hongming Property**") and the Primary School including school sponsors' powers of attorney.

5. Entrustment of directors' rights in the PRC Operating Entities by directors of the PRC Operating Entities appointed by Sichuan Derui, Hongming Property and the Primary School including director's powers of attorney.

6. Spouse undertakings by the respective spouse of the Registered Shareholders, who are shareholders of Sichuan Derui.

7. Pledge of equity interest by the Registered Shareholders of their equity interest in Sichuan Derui.

8. Provision of loans by Tibet Huatai to Sichuan Derui which will be directly settled by Tibet Huatai as capital contribution of the PRC Operating Entities on behalf of Sichuan Derui.

9. The school sponsor's interest in the University is owned as to 51.87% by Sichuan Derui, 24.30% by Xinhua Winshare and 23.83% by Hongming Property, each as a school sponsor, and Sichuan International Studies University is named as a school sponsor, entitled to the rights stipulated under the articles of the University and the relevant PRC laws, and returns under the 2009 University Agreement. Xinhua Winshare is a company listed on the Main Board of the Stock Exchange (stock code: 0811), and as it has a substantial interest in the University, it is a connected person of the Group. Hongming Property is held by independent third parties.

10. All of the rights and liabilities attached to 23.83% school sponsor's interest held by Hongming Property in Chengdu Institute Sichuan International Studies University was assigned to Sichuan Derui pursuant to an agreement dated 26 March 2011. On 15 November 2016, Sichuan Derui and Xinhua Winshare entered into the school sponsor's interest transfer agreement, pursuant to which Xinhua Winshare agreed to sell and Sichuan Derui agreed to purchase 24.30% of the school sponsor's interest in Chengdu Institute Sichuan International Studies University. Although the approval for such school sponsor interest transfer is not granted as at the date of submission, both parties agreed that Sichuan Derui was entitled to the 24.30% school sponsor's interest in Chengdu Institute Sichuan International Studies University originally held by Xinhua Winshare upon entering into the transfer agreement.

11. Directors of the PRC Operating Entities as appointed by Sichuan Derui, Hongming Property and the Primary School.

12. The school sponsor's interest in the Chengdu Foreign Languages School of Zigong is owned as to 47% by Sichuan Derui, 43% by Zigong Purun Technology Co., Ltd ("**Zigong Purun Technology**") and 10% by Chengdu Yirui Education Consulting Co., Ltd ("**Chengdu Yirui**"). Zigong Purun Technology and Chengdu Yirui are independent third parties.

13. The school sponsor's interest in the Zigong High School is owned as to 47% by Sichuan Derui, 23% by Zigong Purun Holdings Group Co., Ltd ("**Purun Holding**"), 20% by Zigong Purun Education Consulting Services Co., Ltd ("**Zigong Purun Education**") and 10% by Chengdu Yirui. Purun Holding, Zigong Purun Education and Chengdu Yirui are independent third parties.

14. The school sponsor's interest in the Kindergarten of Zigong is owned as to 47% by Sichuan Derui, 23% by Purun Holding, 20% by Zigong Purun Education and 10% by Chengdu Yirui. Purun Holding, Zigong Purun Education and Chengdu Yirui are independent third parties.

15. The school sponsor's interest in the Chengdu Experimental Foreign Languages School of Xindu Wulongshan is owned as to 45% by Sichuan Derui, 40% by Chengdu Yirui and 15% by Chengdu Wanke Xindu Zhiye Co., Ltd ("**Chengdu Wanke**"). Chengdu Yirui and Chengdu Wanke are independent third parties.

16. The school sponsor's interest in Wulongshan Campus is owned as to 45% by Sichuan Derui, 40% by Chengdu Yirui and 15% by Chengdu Wanke. Chengdu Yirui and Chengdu Wanke are independent third parties.

17. The school sponsor's interest in Meinian Campus is owned as to 40% by Sichuan Derui, 35% by Chengdu Fantasia Estate Company Limited ("**Chengdu Fantasia**"), 13% by Chengdu Yirui and 12% by Sichuan Fanmei Zhinuo Education Management Company Limited ("**Sichuan Fanmei**"). Chengdu Fantasia, Chengdu Yirui and Sichuan Fanmei are independent third parties.

18. According to PRC laws and regulations, entities and individuals who establish private schools are commonly referred to as "school sponsors" instead of "owners" or "shareholders".

19. " " denotes direct legal and beneficial ownership in the equity interest.

20. " " denotes school sponsor's interest.

21. " " denotes Structured Contracts.

22. " " denotes the PRC Operating Entities.

B. Summary of the Material Terms of the Structured Contracts

(1) Business Cooperation Agreements

Pursuant to the Business Cooperation Agreements, Tibet Huatai shall provide technical service, management support and consulting service necessary for the private education business, and in return, the PRC Operating Entities shall make payments pursuant to the Structured Contracts. To ensure the due performance of the Structured Contracts, each of the PRC Operating Entities agreed to comply, and procure any of its subsidiaries to comply with, and Sichuan Derui and the Registered Shareholders agreed to procure the PRC Operating Entities to comply with the obligations as prescribed under in the Business Cooperation Agreements.

In order to prevent the leakage of assets and values of the consolidated affiliated entities, the Registered Shareholders, Sichuan Derui and each of the PRC Operating Entities have undertaken that, without prior written consent of Tibet Huatai or its designated party, Sichuan Derui, he/she/it shall not conduct or cause to conduct any activity or transaction which may have actual impact (i) on the assets, business, staff, obligations, rights or operations of the PRC Operating Entities or (ii) on the ability of Sichuan Derui, the Registered Shareholders and each of the PRC Operating Entities to perform the obligations under the Structured Contracts.

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

(2) Exclusive Technical Service and Management Consultancy Agreements

Pursuant to the Exclusive Technical Service and Management Consultancy Agreements, Tibet Huatai agreed to provide exclusive technical services to the PRC Operating Entities. Furthermore, Tibet Huatai agreed to provide exclusive management consultancy services to the PRC Operating Entities.

In consideration of the technical and management consultancy services provided by Tibet Huatai, each of the PRC Operating Entities (except for Chengdu Foreign Languages School of Zigong, Zigong High School, Kindergarten of Zigong, Chengdu Experimental Foreign Languages School of Wulongshan, Wulongshan Campus and Meinian Campus) agreed to pay Tibet Huatai a service fee equal to all of their respective amount of net profit (after deducting all 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)); Chengdu Foreign Languages School of Zigong, Zigong High School, Kindergarten of Zigong, Chengdu Experimental Foreign Languages School of Wulongshan, Wulongshan Campus and Meinian Campus) agreed to pay Tibet Huatai a service fee equal to the net profit attributable to Sichuan Derui's school sponsor interest (after deducting all costs, expenses, taxes, losses from the previous year (if required by the law) and legally compulsory development fund of the school (if required by the law). The compulsory development fund is included as statutory surplus reserve at the Group's level and retained at schools' level. Tibet Huatai 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 Operating Entities, provided that any adjusted amount shall not exceed the amount mentioned above. The PRC Operating Entities do not have any right to make any such adjustment.

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

(3) Exclusive Call Option Agreements

Under the Exclusive Call Option Agreements, Sichuan Derui has irrevocably granted Tibet Huatai or its designated purchaser the right to purchase all or part of the school sponsor's interest of Sichuan Derui in the PRC Operating Entities (the "**Equity Call Option**"). The purchase price payable by Tibet Huatai in respect of the transfer of such school sponsor's interest upon exercise of the Equity Call Option shall be the lowest price permitted under the PRC laws and regulations. Tibet Huatai or its designated purchaser shall have the right to purchase such proportion of the school sponsor's interest of the PRC Operating Entities as it decides at any time.

In the event that PRC laws and regulations allow Tibet Huatai or us to directly hold all or part of the equity interest in the PRC Operating Entities and operate private education business in the PRC, Tibet Huatai shall issue the notice of exercise of the Equity Call Option as soon as practicable, and the percentage of 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 Huatai or us under PRC laws and regulations.

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

Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreements, each of Sichuan Derui, Hongming Property and the Primary School (as school sponsor of the Kindergarten) has irrevocably authorised and entrusted Tibet Huatai to exercise all its rights as school sponsor of each of the PRC Operating Entities to the extent permitted by the PRC laws. Pursuant to the School Sponsors' and Directors' Rights Entrustment Agreement, each of Mr. Yan Yude, Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Jiang Chenglong and Ms. Lv Hongying (the "**Appointees**") has irrevocably authorised and entrusted Tibet Huatai to exercise all his/her rights as directors of the PRC Operating Entities as appointed by Sichuan Derui, Hongming Property or the Primary School (as applicable) and to the extent permitted by the PRC laws.

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

(5) School Sponsors' Powers of Attorney

Pursuant to the School Sponsors' Powers of Attorney executed by each of Sichuan Derui, Hongming Property and the Primary School in favor of Tibet Huatai, each of Sichuan Derui, Hongming Property and the Primary School (as school sponsor of the Kindergarten) authorised and appointed Tibet Huatai, the sole director of which is Mr. Yi Yu (who is not a director of any of the PRC Operating Entities and does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of the PRC Operating Entities.

Tibet Huatai shall have the right to further delegate the rights so delegated to directors of Tibet Huatai or other designated person. Tibet Huatai confirms that it will not delegate any of these rights to anyone whose interest would potentially conflict with those of the Company. Sichuan Derui irrevocably agreed that the authorization appointment in the School Sponsor's Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of Sichuan Derui's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsor's Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(6) Directors' Powers of Attorney

Pursuant to the Directors' Powers of Attorney executed by each of the Appointees in favor of Tibet Huatai, each of the Appointees authorised and appointed Tibet Huatai, the sole director of which is Mr. Yi Yu (who is not a director of any of the PRC Operating Entities and does not give rise to any conflicts of interest), as his/her agent to act on his/her behalf to exercise or delegate the exercise of all his/her rights as directors of the PRC Operating Entities.

Tibet Huatai shall have the right to further delegate the rights so delegated to directors of Tibet Huatai or other designated person. Tibet Huatai confirms that it will not delegate any of these rights to anyone whose interest would potentially conflict with those of the Company. Each of the Appointees irrevocably agreed that the authorization appointment in the Directors' Powers of Attorney shall not be invalid, prejudiced or otherwise adversely affected by reason of his/her loss of or restriction on capacity, death or other similar events. The Directors' Power of Attorney shall constitute a part and incorporate terms of the School Sponsors' and Directors' Rights Entrustment Agreement.

(7) Spouse Undertakings

Pursuant to the Spouse Undertakings, the respective spouse of each of the Registered Shareholders (if any) has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts by the relevant Registered Shareholder, and in particular, the arrangement as set out in the Structured Contracts in relation to the restrictions imposed on the equity interest in Sichuan Derui, pledge or transfer the equity interest in Sichuan Derui, or the disposal of the equity interest in Sichuan Derui in any other forms;

(b) the spouse has not, is not and shall not in the future participate in the operation, management, liquidation, dissolution and other matters in relation to Sichuan Derui and the PRC Operating Entities (except for Mr. Yan Yude and Ms. Wang Xiaoying);

(c) the spouse authorizes the respective Registered Shareholder and/or his/her authorised person to execute all necessary documents and perform all necessary procedures from time to time for and on behalf of the spouse in relation to the spouse's equity interest in Sichuan Derui in order to safeguard the interest of Tibet Huatai 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 death, loss of or restriction on capacity of the spouse, divorce or other similar events; and

(e) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Tibet Huatai and the spouse in writing.

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

(8) Equity Pledge Agreements

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

Pursuant to the Equity Pledge Agreements, without the prior written consent of Tibet Huatai, the Registered Shareholders shall not transfer the equity interest or create further pledge or encumbrance over the pledged equity interest. Any unauthorised transfer shall be invalid, and the proceeds of any transfer of the equity interest shall be first used in the payment of the Secured Indebtedness or deposited to such third party as agreed to by Tibet Huatai. 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 Agreements. The pledge under the Equity Pledge Agreement was registered with the relevant Administration of Industry and Commerce of the PRC on 18 September 2015 and became effective on the same date.

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

(9) Loan Agreements

Pursuant to the Loan Agreements, Tibet Huatai agreed to provide interest-free loans to Sichuan Derui in accordance with the PRC laws and regulations and Sichuan Derui agreed to utilize the proceeds of such loans to contribute as capital of the PRC Operating Entities in its capacity as school sponsor of the schools operated by the Group in accordance with our instructions. Both parties agree that all such capital contribution will be directly settled by Tibet Huatai on behalf of Sichuan Derui.

The term of the Loan Agreements shall continue until all school sponsor's interest of the PRC Operating Entities are transferred to Tibet Huatai 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 Agreements will be for an infinite term until termination at the sole discretion of Tibet Huatai.

C. Business Activities of PRC Operating Entities

The consolidated affiliated entities of the Group, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the University, the Primary School attached to Chengdu Foreign Languages School, Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School, Chengdu Foreign Languages School of Panzhihua, Primary School Attached to Chengdu Experimental Foreign Languages School, Chengdu Foreign Languages School of Zigong, Kindergarten of Zigong, Zigong High School, Wulongshan Campus, Chengdu Experimental Foreign Languages School of Xindu Wulongshan and Meinian Campus, Chengdu Experimental Foreign Languages School of Quxian, and Quxian High School. Their business activities are primarily to offer educational services to students of different age groups from kindergarten to the university.

D. Significance and financial contributions of PRC Operating Entities to the Group

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

	Significances and financial contribution to the Group					
	Revenue For the year ended 31 December		Net Profit* For the year ended 31 December		Total assets As at 31 December	
	2018	2017	**2018**	2017	**2018**	2017
PRC Operating Entities	**100%**	100%	**106%**	128%	**86%**	89%

* Before service fee charged under Structured Contracts

E. Revenue and assets involved in Structured Contracts

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

	Revenue RMB'000 For the year ended 31 December 2018	Assets RMB'000 As at 31 December 2018
PRC Operating Entities	**1,166,696**	**4,240,327**

F. Regulatory Framework

The Group currently conducts its private education business through the PRC Operating Entities in the PRC as PRC laws and regulations generally prohibit or restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict the operation of preschools, high schools and higher education institutions to Sino-foreign ownership, in addition to imposing qualification requirements on the foreign owners. The Company does not hold any equity interest in the PRC Operating Entities. The Structured Contracts, through which the Company obtains control over and derive the economic benefits from the PRC Operating Entities, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations.

1. Primary School and Middle School Education

Pursuant to the Implementation Opinions on Encouraging and Guiding Private Fund's Entry into the Education Sector and Promoting Healthy Development of Private Education (關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見) promulgated by the Ministry of Education of the PRC ("**MOE**") on 18 June 2012 ("**Implementation Opinions**"), foreign-invested companies that engage in educational activities in the PRC should comply with the Foreign Investment Catalog. Under the Foreign Investment Catalog, the latest amendment to which was promulgated by the National Development and Reform Commission ("**NDRC**") and the Ministry of Commerce of the PRC ("**MOFCOM**") in March 2015 and became effective on 10 April 2015, primary schools and middle schools offering compulsory education for students from grade one to nine fall within the "prohibited" category. As a result of the prohibition on foreign ownership, foreign investors (including individuals, companies, partnerships, educational institution and any other entities) are prohibited from owning primary schools or middle schools in the PRC, whether through direct investments or through wholly-owned subsidiaries in the PRC. Therefore, the Company does not hold any direct equity interest in any of Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus) and the Primary School, each of which offers either primary school or middle school education, and controls each of them through the Structured Contracts.

2. Preschool, High School and Higher Education

Pursuant to the Guidance Catalog of Industries for Foreign Investment (Amended in 2015) 《(外商投資產業指導目錄》(2015 年修訂)) ("**Foreign Investment Catalog**") which was amended and promulgated by the NDRC and the MOFCOM on 10 March 2015 and became effective on 10 April 2015, and the Sino-Foreign Regulation, the foreign investor in a Sino-foreign joint venture school offering preschool, high school and higher education must be a foreign education institution with relevant qualification and high quality of education ("**Qualification Requirement**"), hold less than 50% of the capital in a Sino-foreign education institute ("**Foreign Ownership Restriction**") and the domestic party shall play a dominant role ("**Foreign Control Restriction**"), meaning (a) the principal or other chief executive officer of the schools shall be a PRC national (with which the Group had fully complied); and (b) the representative of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution.

In relation to the interpretation of Sino-foreign cooperation, if the Company were to apply for any of the schools operated by the Group to be reorganized as a Sino-foreign joint venture private school for PRC students at a preschool, high school and schools offering higher education ("**Sino-Foreign Joint Venture Private School**"), in addition to the Qualification Requirements and the Foreign Ownership Restriction, pursuant to the Implementation Opinions, the establishment of these schools is subject to approval of education authorities at the provincial or national level.

The PRC Legal Advisors have advised that as at the date of this annual report, it is currently uncertain as to what specific criteria must be met by a foreign investor (such as length of experience and form and extent of ownership in the foreign jurisdiction) in order to demonstrate to the relevant educational authority that it meets the Qualification Requirement.

As advised by the PRC Legal Advisors, the Sichuan governmental authority has not promulgated any implementing measures or specific guidance in respect of the Qualification Requirement as at 31 December 2018 and up to the date of this annual report.

Given that as at 31 December 2018 and up to the date of this annual report, as advised by the PRC Legal Advisors, there is no implementing measures or specific guidance in respect of the Qualification Requirement, it is therefore not practicable for us to seek to apply to reorganize any of the PRC Operating Entities as a Sino-Foreign Joint Venture Private School or convert any of the Kindergarten or the University into a Sino-Foreign Joint Venture Private School.

The Company has made inquiries with relevant educational authorities to understand any regulatory developments, including whether there will be any change in policy for approving Sino- Foreign Joint Venture Private Schools in the Sichuan Province, and the relevant educational authorities confirmed that there are no regulatory developments in this regard.

3. Plan to Comply with the Qualification Requirement

The Company has adopted a specific plan and taken the following concrete steps which the Company reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement.

As of December 31, 2018, the Company has taken the following steps to implement the Group's plan.

The California Bureau for Private Postsecondary Education ("**BPPE**") has approved Virscend University to grant two degree programs, Bachelor of Science in Business Administration(BS) and Master of Business Administration (MBA) programs on November 18, 2016. The new University named Virscend University, has graduated 9 MBA students in September 2018 and currently enrolls 15 MBA students as of August 2019. Virscend University is in the process of applying for WSCUC accreditation to meet the standard of high quality with higher education offered to students. The Company has a total expenditure of USD340,000 in 2018 in connection with the Group's plan for the year of 2018 and up to the date of this annual report.

4. Draft Foreign Investment Law

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

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

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

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

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

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

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

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

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

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

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

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

Notwithstanding that the accompanying explanatory notes to the Draft Foreign Investment Law ("**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 as at 31 December 2018 and up to the date of this annual report, the Explanatory Notes contemplate three possible approaches in dealing with foreign-invested enterprises with existing VIE structures and conducting business in an industry falling in the "negative list":

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

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

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

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

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

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

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

If the Draft Foreign Investment Law is promulgated in the current draft form, on the basis that (i) Mr. Yan Yude, who is of Chinese nationality, is a Controlling Shareholder of the Company as at 31 December 2018 and up to the date of this annual report; (ii) the Company through Tibet Huatai exercises effective control over the PRC Operating Entities pursuant to the Structured Contracts and (iii) the majority seats of the Board are PRC nationals and the Company will ensure that the majority seats of the Board will be PRC nationals, the PRC Legal Advisors are of the view that the Company can apply for the recognization of the Structured Contracts as domestic investments and it is likely that the Structured Contracts will be considered as legal.

The Company and the Board after consultation with the PRC Legal Advisors, is satisfied that there are no updates relating to the Draft Foreign Investment Law and the Explanatory Notes in 2018.

5. Regulation Updates

(i) Impact of the "Implementing Regulations of the Law of the People's Republic of China on the Promotion of Privately-run Schools (Revised Draft)" ("**Revised Implementing Regulations**")

In April 2018, the MOE issued a consultation draft of the Revised Implementing Regulations to seek public opinions. The MOE's consultation draft further promoted the development of private education. It stipulates that private school should enjoy the same rights or preferential policies as public schools, including tax preferential treatment and other preferential policies, and stipulates the implementation of minimum registered capital requirement for schools providing higher education as well as other academies, and preferential treatment for such private institutions by way of land allocation.

On 10 August 2018, the Ministry of Justice of the PRC ("**MOJ**") issued a draft for approval of the Revised Implementing Regulations ("**MOJ Draft**") to seek public opinion. The MOJ Draft contains more provisions on the operation and management of private schools, including: (i) educational conglomerates are prohibited to take control of non-profit private schools through mergers and acquisitions, franchise chains, and control agreements: (ii) private schools shall conduct connected transactions in an open, reasonable and fair manner. A disclosure mechanism should be established for such transactions.

According to the opinions of the Company's PRC legal advisor, the potential impact of the MOJ Draft is as follows:

Chengdu Institute Sichuan International Studies University may need to raise its registered capital to RMB200 million. According to our current understanding and interpretation of the MOJ Draft, should we comply to the "Implementation Regulations for the Categorization and Registration of Private Schools in Sichuan Province ("**Sichuan Implementation Regulations**")", Chengdu Institute Sichuan International Studies University would be registered as a for-profit private school. We may have to increase its registered capital to not less than RMB200 million. As at the date of this annual report, the registered capital of Chengdu Institute Sichuan International Studies University is RMB98,408,800.

The impact of the MOJ Draft on the existing primary and junior high schools in the education stage within the Group to only set up as non-profit schools is not clear. According to the MOJ Draft, a legal entity sponsoring or controlling certain schools may not take control of non-profit private schools through mergers and acquisition, franchise chains, and structured contracts. The structural contracts involving the primary and junior high schools within the Group were signed and executed before the issuance of the MOJ Draft. Comments should have been submitted by 10 September 2018 and are now overdue. However, it did not provide a timetable for promulgating the Revised implementing Regulations. As at the date of this annual report, the updated version of the Revised implementing Regulations has not yet been promulgated. There are uncertainties about the form and content of the Revised Implementing Regulations which is subject to further update. We will pay close attention to the MOJ Draft and consult with our PRC legal advisor on the progress of the promulgation of the Revised Implementing Regulations.

(ii) Impact of the "Law of the People's Republic of China on Foreign Investment"

On 15 March 2019, the "Law of the People's Republic of China on Foreign Investment" ("**Foreign Investment Law**") was passed and promulgated by the National People's Congress, and will be effective from 1 January 2020. The Foreign Investment Law defines foreign investment as an investment activity conducted directly or indirectly by a foreign investor, and enumerates the situations that should be deemed as foreign investment. At the same time, the Foreign Investment Law stipulates that foreign investment activities are granted with the pre-establishment national treatment and shall follow the Negative List (as defined hereunder) management system. Foreign investors shall not invest in areas that are prohibited in the Negative List for the Access of Foreign Investment ("**Negative List**"). Foreign investors shall meet the conditions stipulated in the Negative List in order to invest into the areas that are categorized by the Negative List as restricted category. Foreign investors shall follow the same principle as domestic investment in order to invest in areas that are not on the Negative List. There are no provisions in the Foreign Investment Law that explicitly mention the "actual control" or the "contractual arrangements". Nevertheless, further laws and regulations on the above-mentioned are not ruled out. Therefore, there are still uncertainties on whether the structure under the contractual arrangements will be included in the scope of foreign investment supervision in the future, and on the supervision framework if it is included in the scope of supervision. As at the date of this annual report, the Company's operations have not been affected by the Foreign Investment Law. The Company will closely monitor the development of the Foreign Investment Law and the related laws and regulations.

(iii) Impact of the decision on the revision of the "Law of the People's Republic of China on the Promotion of Private Education"

On 7 November 2016, the decision on the revision of the "Law of the People's Republic of China on the Promotion of Private Education" ("**Decision**") was passed by and promulgated by the National People's Congress, and has become effective since 1 September 2017. The Decision made certain amendments on the "Law of the People's Republic of China on the Promotion of Private Education". According to the Decision, the school sponsors of private schools can choose to set up non-profit or for-profit private schools, but schools offering compulsory education can only be established as non-profit private schools.

The Sichuan Implementation Regulations was promulgated by the Education Department of Sichuan Province and four other relevant government authorities on 2 May 2018 and has become effective since 1 June 2018, establishing certain framework procedures for the transformation of existing private school in Sichuan Province into for-profit private schools or non-profit private schools.

To the best knowledge of the Company, there is uncertainty on the interpretation and application of the Decision, especially having considered that no detailed regulations and rules were enacted for the financial liquidation, property ownership division and tax payment in relation to the transformation of schools into for-profit private schools under the Sichuan Implementation Regulation as at the date of this annual report, which can affect or may affect the entire industry or several of our schools. Hence, as at the date of this annual report, we were unable to measure the impact of the implementation of the Decision on the business operation of our Group.

(iv) Impact of the "Opinions of the Central Committee of the Communist Party of China on the Deepening Reform and Standardization of Preschool Education"

On 7 November 2018, the "Opinions of the Central Committee of the Communist Party of China on the Deepening Reform and Standardization of Preschool Education" was issued by the Central Committee of the Communist Party of China. Certain Opinions on the deepening reform and standardization of preschool education were put forward, including: (i) private capital shall not control kindergartens through mergers and acquisitions, entrusted operations, franchise chains, use of variable interest entities, and agreement control; (ii) for-profit kindergartens participating in mergers and acquisitions, franchise agreement and chain operations shall report the agreements signed with relevant enterprises interested therein to the education department that are at or above the county level for publication to the public; (iii) private kindergartens are not allowed to be listed separately or as part of the listed assets. A listed company may not invest in a for-profit kindergarten through financing in the stock market, and may not purchase assets of the for-profit kindergartens by issue of shares or cash payment; and (iv) encouraging social force to operate kindergartens. The government has increased support, guiding social forces to operate more inclusive kindergartens. Before the end of June 2019, all provinces, including autonomous regions and municipalities directly under the Central Government, should further improve the recognition standards, subsidy standards and support policies for inclusive kindergartens private schools. The development of inclusive private kindergartens is supported by among others, purchased of services, comprehensive awards, rent reduction, stationed public teachers, teachers training and guidance on teaching and research. The number of enrollment capacity in inclusive kindergartens and the quality of the inclusive kindergartens are the important indicators for incentives subsidies and support.

After consulting our PRC legal advisor, we are of the view that the opinion the Group's operations in the following aspects: 1) as the opinion itself has no stipulation of retrospective arrangements, there are uncertainties in disposal measures of private kindergarten which has been controlled by structured contracts and integrated into the Group before the opinion was promulgated. Under the worst scenario, governmental authority would require the Group to dispose private kindergartens controlled by structured contracts in order to comply with relevant requirements of the opinion. We are not in the position to assume that the worst scenario will not happen. In light of a net profit of RMB3.03 million recorded for the kindergarten business for the year ended 31 December 2018, accounting for 0.83% of the Group's total net profit, the Directors of the Group concluded that the worst scenario would not impose material adverse effect to the overall financial and operation of the Group; 2) The opinion has specifically stated that no private kindergartens are allowed to seek for listing, separately or as part of the listing assets. Listed companies are also prohibited from investing in for-profit kindergartens by stock market financing or purchasing assets of for-profit kindergartens by means of issuing shares or cash payment; 3) however, the opinion also stated that the government would support and encourage public participation in establishing inclusive kindergartens through, among others, government procurement, comprehensive incentives and subsidies, rent reduction, dispatching public teachers, teachers training, guidance on teaching and research. With experiences in managing and operating kindergartens over the past years, the Company is able to participate in the development of kindergarten business by delivering services, and explore such participation in teachers training services market.

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

The Structured Contracts are used to enable the Group to consolidate the financial results of the PRC Operating Entities which engage in the operation of kindergarten, primary school, middle schools, high schools and university where the PRC laws and regulations currently prohibit foreign ownership of primary and middle schools in the PRC and restrict operation of preschools, high schools and higher education institutions to Sino-foreign ownership, in addition to imposing Qualification Requirements on the foreign owners and withholding government approval in respect of Sino-foreign ownership.

The PRC government may find that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject us to severe penalties and the Group's business may be materially and adversely affected. The Board emphasizes that the Draft Foreign Investment Law proposing sweeping changes to the PRC foreign investment regulatory regime, which would likely to have a significant impact on businesses operated in the PRC by foreign invested enterprises primarily through contractual arrangements. Furthermore, the Group relies on the Structured Contracts to obtain control over and derive the economic benefits from the PRC Operating Entities, which may not be as effective in providing operational control as direct ownership. The registered owners of the PRC Operating Entities may have conflicts of interest with the Group or there is deterioration of relations, which may materially and adversely affect the Group's business and financial condition. The Group's execution on the option to acquire school sponsor's interest of the PRC Operating Entities may be subject to certain limitations and the Company may incur substantial costs and expend significant resources to enforce the Structured Contracts if any of the PRC Operating Entities fails to perform its obligations thereunder. The Structured Contracts may be subject to scrutiny of PRC tax authorities and additional tax may be imposed, which may materially and adversely affect the Group's results of operation and value of the investment by the Shareholders or potential investors of the Company. Certain terms of the Structured Contracts may not be enforceable under PRC laws. The PRC Operating Entities may be subject to limitations on their ability to operate private education or make payments to related parties. The Company relies on dividend and other payments from Tibet Huatai to pay dividends and other cash distributions to the Shareholders. If any of the PRC Operating Entities or Sichuan Derui becomes subject to winding up or liquidation proceedings, the Company may lose the ability to enjoy certain important assets, which could negatively impact the Group's business and materially and adversely affect the Group's ability to generate revenue. For more details, please refer to the section headed "Risk Factors - Risks relating to our Structured Contracts" in the Prospects.

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Structured Contracts and the Group's 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 the annual and interim reports regarding the Qualification Requirement and the Group'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" and the latest development of the Draft Foreign Investment Law and its accompanying explanatory notes as disclosed under the section headed "Structured Contracts — Development in the PRC Legislation on Foreign Investment" of the Prospectus, including the latest relevant regulatory development as well as the Group's plan and progress in acquiring the relevant experience to meet the Qualification Requirement; and

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

For the year ended 31 December 2018, the Board has reviewed the overall performance of the Structured Contracts and believed that the Group has complied with the Structured Contracts in all material respects.

We have been advised by our PRC Legal Advisors that the Structured Contracts do not violate the relevant PRC regulations.

In addition, notwithstanding that the executive Directors, Mr. Yan Yude, Ms. Wang Xiaoying and Mr. Ye Jiayu, are also the Registered Shareholders, the Company believes that the Directors are able to perform their roles in the Group independently and the Group is capable of managing its business independently 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, among 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 the announcements, circulars, annual and interim reports of the Company 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.

During the Reporting Period, the Group completed the establishment of Chengdu Experimental Foreign Languages School of Quxian, and Quxian High School. All of them entered into the structured contracts, with Tibet Huatai, upon their establishment, the framework of which is a reproduction of the existing arrangements of the Structured Contracts as disclosed in the Prospectus. As such, each of these schools is a consolidated affiliated entity of the Company.

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

(3) Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the aforesaid Property Lease Agreements and Structured Contracts (collectively, the "**Continuing Connected Transactions**") and confirmed that, during the Reporting Period:

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

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

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

(4) Confirmation of auditor of the Company

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

After performing the procedures related to continuing connected transaction, Ernst & Young confirmed that, in respect of the disclosed continuing connected transactions with the PRC Operating Entities under the Structured Contracts:

a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company' s board of directors;

b. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

c. nothing has come to their attention that causes us to believe that dividends or other distributions have been made by Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), Chengdu Institute Sichuan International Studies University, the Primary School Attached to Chengdu Foreign Languages School and Kindergarten of the Primary School Attached to Chengdu Jinniu District Foreign Languages School, Foreign Languages School of Zigong, Chengdu Foreign Languages School of Zigong, Chengdu Foreign Languages High School of Zigong, Chengdu Experimental Foreign Languages School of Xindu Wulongshan, Wulongshan Campus of Chengdu Experimental Foreign Languages School and Gaoxin Meinian Campus of Primary School Attached to Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School of Quxian and Virscend High School of Quxian to the holders of their school sponsor' s interests which are not otherwise subsequently assigned or transferred to the Group.

In respect of the Property Lease Agreements, Ernst & Young opined that:

a. nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company' s board of directors;

b. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

c. they were unable to perform any procedures with respect to the aggregate amount of the transactions because the Company did not set any annual cap for the lease transactions for 2018.

Ernst & Young has issued a letter containing their findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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 28 to the financial statements.

SIGNIFICANT LEGAL PROCEEDINGS

During 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.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2018 and up to the date of this annual report, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to minimizing the impact on the environment from our business activities. In accordance with Rule 13.91 and Appendix 27 to the Listing Rules, the Company's Environmental, Social and Governance Report will be available on its website within three months from the publication of this annual report.

PERMITTED INDEMNITY PROVISION

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

IMPORTANT EVENTS SINCE THE YEAR END

The Group had no important events occured since the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Audit Committee, together with the Board and external auditor, has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 68 to 81 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 during the Reporting Period and up to the date of this annual report.

AUDITOR

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

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

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

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

On behalf of the Board
Wang Xiaoying
Chairwoman

Sichuan, the PRC, 25 March 2019

CORPORATE GOVERNANCE REPORT

The Board is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the CG Code as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the year ended 31 December 2018. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

THE BOARD

RESPONSIBILITIES

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

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

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

BOARD COMPOSITION

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

Executive Directors:
Ms. Wang Xiaoying
Mr. Xu Ming (resigned on 15 November 2018)
Mr. Ye Jiayu
Mr. Yan Yude
Mr. Deng Bangkai (appointed on 15 November 2018)

Independent Non-executive Directors:
Mr. Sit Chiu Wing
Mr. Chan Kim Sun
Ms. Xu Dayi (resigned on 15 November 2018)
Mr. Wen Ruizheng (appointed on 15 November 2018)

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

During the year ended 31 December 2018, 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 possesses appropriate professional qualifications or accounting or related financial management expertise.

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

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

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

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

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

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

INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

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

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

The record of professional training received by the Directors during the year ended 31 December 2018 is as follows:

Name of Directors	Nature of Continuous Professional Development Programmes
Executive Directors	
Ms. Wang Xiaoying	A/B/C/D
Mr. Xu Ming (resigned on 15 November 2018)	A/B/C/D
Mr. Ye Jiayu	A/C/D
Mr. Yan Yude	A/B/C/D
Mr. Deng Bangkai (appointed on 15 November 2018)	A/B/C/D
Independent Non-Executive Directors	
Mr. Sit Chiu Wing	A/C/D
Mr. Chan Kim Sun	A/C/D
Ms. Xu Dayi (resigned on 15 November 2018)	A/C/D
Mr. Wen Ruizheng (appointed on 15 November 2018)	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

CHAIRWOMAN 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.

The Chairwoman of the Board and the chief executive officer of the Company (the "**Chief Executive Officer**") are currently two separate positions held by Ms. Wang Xiaoying and Mr. Yan Yude, respectively, with clear distinction in responsibilities. The Chairwoman of the Board is responsible for providing strategic advice and guidance on the business development of the Group, while the Chief Executive Officer is responsible for the day-to-day operations of the Group.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Yan Yude and Mr. Deng Bangkai, being the executive Directors, has entered into a service contract with the Company for an initial fixed term of three years commencing from the Listing Date, Listing Date, Listing Date and 15 November 2018, respectively, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

Each of Mr. Sit Chiu Wing and Mr. Chan Kim Sun and Mr. Wen Ruizheng, being the independent non-executive Directors, has entered into a letter of appointment with the Company for an initial fixed term of one year commencing from the Listing Date, Listing Date and 15 November 2018, respectively, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until the end of the fixed term.

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

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

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

BOARD MEETINGS

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

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are 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 of the Company with copies circulated to all Directors for information and records.

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

During the year ended 31 December 2018, four Board meetings, one annual general meeting and one extraordinary general meeting were held and the attendance of each Director at the meetings is set out in the table below:

	Attendance/Number of meetings	
Directors	**Board Meeting**	**General Meeting**
Ms. Wang Xiaoying	4/4	2/2
Mr. Xu Ming (resigned on 15 November 2018)	4/4	2/2
Mr. Ye Jiayu	4/4	2/2
Mr. Yan Yude	4/4	2/2
Mr. Deng Bangkai (appointed on 15 November 2018)	N/A	N/A
Mr. Sit Chiu Wing	4/4	2/2
Mr. Chan Kim Sun	4/4	2/2
Ms. Xu Dayi (resigned on 15 November 2018)	4/4	2/2
Mr. Wen Ruizheng (appointed on 15 November 2018)	N/A	N/A

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions during the year ended 31 December 2018. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he/she has complied with the Model Code during the year ended 31 December 2018.

At the same time, during the year ended 31 December 2018, 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, namely Mr. Chan Kim Sun (chairman), Mr. Sit Chiu Wing and Mr. Wen Ruizheng, all of them are independent non-executive Directors.

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, its 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.

During the year ended 31 December 2018, the Audit Committee held two meetings. The attendance record of the meetings is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Chan Kim Sun	2/2
Mr. Sit Chiu Wing	2/2
Ms. Xu Dayi (resigned on 15 November 2018)	2/2
Mr. Wen Ruizheng (appointed on 15 November 2018)	N/A

During the year ended 31 December 2018, the Audit Committee reviewed the annual results and reports for the year ended 31 December 2017 and the interim results and report for the six months ended 30 June 2018, the accounting principles and practices adopted by the Company, 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 25 March 2019.

NOMINATION COMMITTEE

The Nomination Committee currently comprises three members, including two independent non-executive Directors namely Mr. Sit Chiu Wing (chairman) and Mr. Wen Ruizheng and one executive Director namely Mr. Yan Yude.

The principal duties of the Nomination Committee include the following:

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

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

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

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

5. to review the board diversity policy.

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

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

BOARD COMPOSITION

Age	35-40	55-60	65-70	70-75
	2	3	1	1

Assuming directorship of other listed companies simultaneously (number of companies)	0	1
	6	1

Number of years as Director of the Company	0-1	3-4	5-6
	2	4	1

Gender	Male	Female
	6	1

Race	Chinese	Non-Chinese
	7	0

SKILLS AND EXPERIENCE OF THE DIRECTORS

	Administration, leadership and strategies	Professional knowledge of the capital market	Experience in Mainland China market	Professional knowledge in legal/ regulatory and compliance/risk management	Professional knowledge in accounting/ financial management
Executive Directors					
Wang Xiaoying	√	√	√	√	√
Ye Jiayu	√	√	√	√	
Yan Yude	√	√	√	√	√
Deng Bangkai	√	√	√	√	√
Independent Non-executive Directors					
Sit Chiu Wing	√	√			
Chan Kim Sun	√	√		√	√
Wen Ruizheng	√		√	√	
Proportion (proportion to the total number of Directors)	100%	86%	71%	86%	57%

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.

During the year ended 31 December 2018, the Nomination Committee held two meetings to review the nomination procedures and the composition, and to discuss the appointments of an executive Director and an independent non-executive Director. The attendance record of the meeting is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Sit Chiu Wing	2/2
Ms. Xu Dayi (resigned on 15 November 2018)	2/2
Mr. Wen Ruizheng (appointed on 15 November 2018)	N/A
Mr. Yan Yude	2/2

During the year ended 31 December 2018, the Nomination Committee reviewed the structure, size and composition of the Board.

REMUNERATION COMMITTEE

The Remuneration Committee comprises three members, including two independent non-executive Directors namely Mr. Sit Chiu Wing (chairman) and Mr. Wen Ruizheng, and one executive Director namely Ms. Wang Xiaoying.

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.

During the year ended 31 December 2018, the Remuneration Committee held two meetings. The attendance record of the meeting is set out in the table below:

Name of Committee Member	Attendance/ Number of meetings
Mr. Sit Chiu Wing	2/2
Ms. Xu Dayi (resigned on 15 November 2018)	2/2
Mr. Wen Ruizheng (appointed on 15 November 2018)	N/A
Ms. Wang Xiaoying	2/2

During the year ended 31 December 2018, the Remuneration Committee 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.

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 26 to 28 of this annual report, for the year ended 31 December 2018 are set out below:

Remuneration band	Number of individual
RMB0 to RMB1 million	10

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 82 to 87 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is its responsibility to ensure that the Company establishes and maintains sound risk management and internal control systems within the Group and to review the effectiveness of the systems. Such systems are designed to manage and mitigate risks inherent in the Group's business faced by the Group to an acceptable level, but not eliminating the risk of failure to achieve business objectives, and can only provide reasonable assurance against material misstatement, loss or fraud.

The Board has entrusted the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covered all material controls, including financial, operational and compliance controls.

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 is 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.

On the basis of the aforesaid, the Audit Committee was not aware of any significant issues that would have an adverse impact on the effectiveness and adequacy of the risk management and internal controls of the Company.

AUDITOR'S REMUNERATION

The remuneration for the audit and non-audit services provided by the auditor to the Group during the year ended 31 December 2018 was approximately as follows:

Type of Services	Amount (RMB)
Audit services	2,584,000
Non-audit services related to IFRS 16 implementation service	160,000
Total	2,744,000

COMPANY SECRETARY

Ms. Ng Sau Mei (an associate director of the listing services department of TMF Hong Kong Limited, a company engaged in the business of providing corporate services) is the company secretary of the Company and is responsible for advising the Board on corporate governance matters and ensuring that the Board policies and procedures, as well as the applicable laws, rules and regulations are followed. Her primary contact person at the Company is Mr. Deng Bangkai, the Chief Operating Officer and an executive Director.

During the year ended 31 December 2018, Ms. Ng Sau Mei 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 Chairwoman and the chairmen of the Board Committees of the Company will attend the annual general meetings to answer Shareholders' questions. The auditor will also attend the annual general meetings to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

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

SHAREHOLDERS' RIGHTS

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

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

CONVENING OF EXTRAORDINARY GENERAL MEETING AND PUTTING FORWARD PROPOSALS

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

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

ENQUIRIES TO THE BOARD

Shareholders who intend to put forward their enquiries about the Company to the Board could send their enquiries to the company secretary of the Company at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong (email address: ir@virscendeducation.com).

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum and articles of association of the Company on 28 December 2015, with effect from the same date and the Listing Date, respectively. There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2018.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Virscend Education Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Virscend Education Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 88 to 164, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

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

Key audit matter	How our audit addressed the key audit matter
Preferential tax treatment	
According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment polices applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. Furthermore, under certain intra-group structured contracts, one of the Group's subsidiaries provides certain technical services to the schools and is entitled to substantially all of the operating profits and residual benefits generated by the schools through service fee charges. There were significant judgements involved in management's analysis and assessment, such as the assessment on the possible outcome of the tax provision based on historical experiences and interpretation of the relevant tax laws and regulations in respect of the preferential tax treatment enjoyed by the PRC private schools. The Group's disclosures about the preferential tax treatment are included in notes 3 and 10 to the financial statements.	The audit procedures included the following: – discussing with management to evaluate their interpretation of the tax laws and their assessment of the tax obligations of the schools operated by the Group for the current year; – evaluating management's assessment on the application of preferential tax or applicable tax rates to the respective schools; – examining the historical tax filing returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, where appropriate; – discussing with the Group's PRC legal advisors about the tax position taken by the schools particularly in respect of the eligibility of the preferential tax treatment under relevant tax rules and regulations; – assessing 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 date of this report; – reviewing the transfer pricing document prepared by the Company's professional tax advisor; and – involving the internal tax specialist in assisting us in the assessment of uncertainty arising from the preferential tax treatments enjoyed by the schools and the transfer pricing risk arising from the inter-group transactions.

Key audit matter	How our audit addressed the key audit matter
Investment of an associate	
In May 2017, the Group acquired a 29.60% equity interest in Beijing Oriental Babycare Consulting Company Limited ("Oriental Babycare") at a total consideration of RMB66.95 million as determined at the acquisition date. Oriental Babycare was accounted for as an associate. The Group recognised a contingent consideration of RMB29.13 million for the acquisition in 2017. The carrying amount of the investment in Oriental Babycare was RMB67.60 million as at 31 December 2017. In 2018, an impairment loss of RMB0.72 million on the carrying amount of Oriental Babycare was identified based on the impairment assessment performed by the Group as of 31 December 2018. The investment in an associate was identified as a key audit matter due to the complexity of impairment test and the assessment process involved significant management judgements and estimations. In performing the impairment testing, management used various assumptions in respect of cash flow forecasts, associated growth rates and the discount rate. Details of the investment in Oriental Babycare are set out in note 15 to the consolidated financial statements.	Our audit procedures, among others, included the evaluation of the Company's policies and procedures to identify impairment indicators for potential impairment of investments in associates. We also assessed the determination of value-in-use of the associate with the assistance of our valuation specialists, which included: – reviewing the valuation methodologies used by external valuers in conducting the impairment test at year end to generally accepted market practices; and – reviewing the assumptions used by management and the external valuers in the valuation models and testing the integrity of the inputs used in these models. We focused on the sensitivity of the inputs and evaluated whether a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of management's estimates, and the disclosures in the consolidated financial statements regarding the impairment testing. We also evaluated the scope of work, qualifications and competence and independence of the external valuers.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The existence and completeness of revenue are of high inherent risk because large volumes of tuition and boarding fee transactions are processed manually. Moreover, all schools implemented tuition and boarding fee refund policies and the refunds are also processed manually. In addition, tuition and boarding fees paid in advance at the beginning of each academic year are recognised proportionately over the fiscal year. Accordingly, revenue may be recorded in the incorrect period between the academic year and the fiscal year. The Group's disclosures about revenue recognition are included in note 5 and note 20 to the financial statements.	We tested the controls designed and applied by the Group over the collection and process of refunds of tuition and boarding fees and the controls over the calculation of the contract liabilities and the corresponding amount of revenue. On a sampling basis, we tested the collection of tuition fees, observed the attendance and checked the identities of students to ensure their existence. Furthermore, we recalculated and checked the correctness of the amounts of contract liabilities and revenue recognised.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is *Law Kwok Kee*.

Certified Public Accountants
Hong Kong

25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**1,167,954**	952,767
Cost of sales		**(666,680)**	(498,702)
Gross profit		**501,274**	454,065
Other income and gains	5	**42,872**	16,230
Selling and distribution expenses		**(5,554)**	(3,611)
Administrative expenses		**(106,568)**	(81,361)
Other expenses		**(9,741)**	(25,580)
Finance costs	7	**(50,623)**	(38,311)
Share of profits and losses of associates		**(2,152)**	645
PROFIT BEFORE TAX	6	**369,508**	322,077
Income tax expense	10	**(6,347)**	(7,212)
PROFIT FOR THE YEAR		**363,161**	314,865
Attributable to:			
Owners of the parent	12	**356,371**	306,374
Non-controlling interests		**6,790**	8,491
		363,161	314,865
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic			
– For profit for the year	12	**RMB0.12**	RMB0.10
Diluted			
– For profit for the year	12	**RMB0.12**	RMB0.10

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR	**363,161**	314,865
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(161)**	42
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(161)**	42
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(161)**	42
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**363,000**	314,907
Attributable to:		
Owners of the parent	**356,272**	306,396
Non-controlling interests	**6,728**	8,511
	363,000	314,907

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,543,997**	3,249,970
Prepaid land lease payments	14	**370,465**	381,623
Intangible assets		**2,247**	1,354
Investment in associates	15	**58,818**	68,192
Pledged deposits	18	**—**	267,488
Other non-current assets	16	**30,377**	81,487
Total non-current assets		**4,005,904**	4,050,114
CURRENT ASSETS			
Prepayments, other receivables and other assets	17	**231,694**	41,247
Amounts due from related parties	28	**5,874**	5,000
Time deposits	18	**52,572**	—
Cash and cash equivalents	18	**639,392**	294,107
Total current assets		**929,532**	340,354
CURRENT LIABILITIES			
Other payables and accruals	19	**237,320**	134,417
Tax payable		**26,975**	23,416
Interest-bearing bank borrowings	21	**474,000**	628,037
Deferred revenue	20	**—**	585,982
Contract liabilities	20	**712,163**	—
Deferred income – current		**2,073**	354
Amounts due to related parties – current	28	**33,228**	966
Financial liability at fair value through profit or loss - current	15	**—**	7,778
Total current liabilities		**1,485,759**	1,380,950
NET CURRENT LIABILITIES		**(556,227)**	(1,040,596)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,449,677**	3,009,518

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,449,677**	3,009,518
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	21	**608,000**	291,000
Deferred income – non-current		**8,744**	5,881
Amounts due to related parties – non-current	28	**—**	13,383
Financial liability at fair value through profit or loss – non-current	15	**—**	19,113
Total non-current liabilities		**616,744**	329,377
Net assets		**2,832,933**	2,680,141
EQUITY			
Equity attributable to owners of the parent			
Share capital	23	**26,051**	26,051
Reserves	24	**2,783,761**	2,637,697
		2,809,812	2,663,748
Non-controlling interests		**23,121**	16,393
Total equity		**2,832,933**	2,680,141

Wang Xiaoying
Director

Ye Jiayu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to owners of the parent							
	Notes	Share capital RMB'000 Note 23	Capital reserve RMB'000 Note 24(a)	Statutory surplus reserve RMB'000 Note 24(b)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2017		26,051	2,046,416	187,318	20	286,734	2,546,539	32	2,546,571
Profit for the year		–	–	–	–	306,374	306,374	8,491	314,865
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	22	–	22	20	42
Total comprehensive income for the year		–	–	–	22	306,374	306,396	8,511	314,907
Contribution from non-controlling interests		–	–	–	–	–	–	7,850	7,850
Transfer from retained profits		–	–	82,872	–	(82,872)	–	–	–
2016 final dividend declared		–	(189,187)	–	–	–	(189,187)	–	(189,187)
At 31 December 2017 and 1 January 2018		26,051	1,857,229*	270,190*	42*	510,236*	2,663,748	16,393	2,680,141
Profit for the year		**–**	**–**	**–**	**–**	**356,371**	**356,371**	**6,790**	**363,161**
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		**–**	**–**	**–**	**(99)**	**–**	**(99)**	**(62)**	**(161)**
Total comprehensive income for the year		**–**	**–**	**–**	**(99)**	**356,371**	**356,272**	**6,728**	**363,000**
Contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer from retained profits		**–**	**–**	**122,994**	**–**	**(122,994)**	**–**	**–**	**–**
2017 final dividend declared and 2018 interim dividend declared	11	**–**	**(210,208)**	**–**	**–**	**–**	**(210,208)**	**–**	**(210,208)**
At 31 December 2018		**26,051**	**1,647,021***	**393,184***	**(57)***	**743,613***	**2,809,812**	**23,121**	**2,832,933**

* These reserve accounts comprise the consolidated reserves of RMB2,783,761,000 (2017: RMB2,637,697,000) 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	6	**369,508**	322,077
Adjustments for:			
Finance costs	7	**50,623**	38,311
Share of profits and losses of associates		**2,152**	(645)
Impairment of investment in an associate	15	**7,221**	—
Interest income		**(718)**	(3,380)
Loss on disposal of items of property, plant and equipment	6	**80**	31
Government grants released		**(3,418)**	(1,116)
Fair value adjustment of contingent consideration	15	**(10,508)**	(2,244)
Depreciation of property, plant and equipment	6,13	**120,350**	76,843
Amortisation of intangible assets	6	**469**	66
Recognition of prepaid land lease payments	6,14	**10,942**	10,824
		546,701	440,767
(Increase)/decrease in prepayments, other receivables and other assets		**(3,203)**	5,493
Increase in other non-current assets		**—**	(115)
Increase/(decrease) in other payables and accruals		**27,017**	(44,214)
Increase in amounts due to related parties		**18,005**	13,680
Increase in contract liabilities/deferred revenue		**126,181**	105,782
Cash generated from operations		**714,701**	521,393
Interest received		**718**	3,380
Income tax paid		**(2,792)**	(3,157)
Net cash flows from operating activities		**712,627**	521,616
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		**(250,057)**	(457,935)
Proceeds from disposal of items of property, plant and equipment		**913**	6
Receipt of government grants for property, plant and equipment		**8,000**	462
Additions to other intangible assets		**(1,364)**	(1,205)
Deposits for non-current assets		**(54,895)**	(212,572)
Decrease in pledged deposits	18	**267,488**	206,602
Purchase of shareholdings in associates	15	**(11,426)**	(38,412)
Increase in time deposits with original maturity of over three months		**(52,572)**	—
Loans to independent third parties - principal		**(320,000)**	—
Loans to independent third parties - interest		**(10,790)**	—
Collection of loans from independent third parties - principal		**170,000**	—
Collection of loans from independent third parties - interest		**756**	—
Net cash flows used in investing activities		**(253,947)**	(503,054)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,307,000**	820,000
Repayments of bank loans		**(1,146,000)**	(896,190)
Contribution from non-controlling shareholders		**—**	9,928
Dividends paid		**(215,134)**	(181,961)
Interest paid		**(51,975)**	(37,368)
Net cash flows used in financing activities		**(106,109)**	(285,591)
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	**639,392**	294,107
Cash and cash equivalents as stated in the statement of cash flows		**639,392**	294,107
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**352,571**	(267,029)
Cash and cash equivalents at beginning of year	18	**294,107**	564,196
Effect of foreign exchange rate changes, net	6	**(7,286)**	(3,060)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**639,392**	294,107

1. CORPORATE AND GROUP INFORMATION

Virscend Education Company Limited (the "Company") was incorporated in the Cayman Islands on 13 March 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 January 2016 (the "Listing Date").

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in providing private education services in the People's Republic of China (the "PRC"). There has been no significant change in the Group's principal activities during the year.

In the opinion of the directors of the Company, as of the date of this report, Mr. Yan Yude and Virscend Holdings Company Limited, which was incorporated in the British Virgin Islands (the "BVI") and fully owned by Mr. Yan Yude, are the Company's controlling shareholders.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Virscend Investment Holding Company Limited	20 March 2015, BVI	USD50,000	100.00%	—	Investment holding
Wah Tai (HK) Investment Limited	8 September 2014, Hong Kong	HKD10,000	—	100.00%	Investment holding
Tibet Huatai Education Management Consulting Co., Ltd. 西藏華泰教育管理有限公司 ("Tibet Huatai")	22 August 2015, the PRC	RMB300,000,000	—	100.00%	Provision of education services
Chengdu Institute Sichuan International Studies University 四川外國語大學成都學院 ("University") (Note (a))	10 January 2001, the PRC	RMB98,408,800	—	(Note (a))	Provision of university education services
Chengdu Foreign Languages School 成都外國語學校	14 January 2000, the PRC	RMB52,000,000	—	100.00%	Provision of high and middle school education services
Chengdu Experimental Foreign Languages School 成都市實驗外國語學校	12 October 2001, the PRC	RMB132,100,000	—	100.00%	Provision of high and middle school education services

1. CORPORATE AND GROUP INFORMATION – *CONTINUED*

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Chengdu Experimental Foreign Languages School (Western Campus) 成都市實驗外國語學校(西區)	4 June 2003, the PRC	RMB1,000,000	–	100.00%	Provision of high and middle school education services
Primary School Attached to Chengdu Foreign Languages School 成都外國語學校附屬小學 ("Primary School")	23 May 2003, the PRC	RMB1,000,000	–	100.00%	Provision of elementary school education services
Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School 成都市金牛區成外附小幼稚園 ("Kindergarten")	2 July 2007, the PRC	RMB1,000,000	–	100.00%	Provision of kindergarten education services
USA Wahtai Educational Consulting Services Inc.	2 November 2015, the United States of America (the "USA")	USD100,000	–	70.00%	Consulting services
Chengdu Derui Huatai Trading Co., Ltd. 成都德瑞華泰商貿有限公司	20 October 2015, the PRC	RMB100,000	–	100.00%	Trading
Chengdu Tianfu New Area Derui Huatai Education Management Co., Ltd 成都天府新區德瑞華泰教育管理有限公司	8 June 2016, the PRC	HKD700,000,000	–	100.00%	Provision of education services
Chengdu Foreign Languages School of Panzhihua 攀枝花市成都外國語學校	17 May 2017, the PRC	RMB3,000,000	–	100%	Provision of high and middle school education services
Primary School Attached to Chengdu Experimental Foreign Languages School 成都市實驗外國語學校附屬小學	1 June 2017, the PRC	RMB2,000,000	–	100%	Provision of elementary school education services

1. CORPORATE AND GROUP INFORMATION – *CONTINUED*

Name	Date and place of incorporation/ establishment and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
Kindergarten of the Primary School attached to Chengdu Foreign Languages School of Zigong 自貢成外附小幼稚園有限公司	25 October 2017, the PRC	RMB500,000	–	47%*	Provision of kindergarten education services
Chengdu Foreign Languages School of Zigong 自貢成都外國語學校	6 June 2017, the PRC	RMB1,500,000	–	47%*	Provision of elementary and middle school education services
Chengdu Foreign Languages High School of Zigong 自貢成外高級中學有限公司	25 October 2017, the PRC	RMB3,000,000	–	47%*	Provision of high school education services
Chengdu Experimental Foreign Languages School of Xindu Wulongshan 成都實外新都五龍山學校	31 May 2017, the PRC	RMB1,000,000	–	45%*	Provision of elementary and middle school education services
Wulongshan Campus of Chengdu Experimental Foreign Languages School 成都市實驗外國語學校五龍山校區	31 May 2017, the PRC	RMB3,000,000	–	45%*	Provision of high school education services
Gaoxin Meinian Campus of Primary School Attached to Chengdu Foreign Languages School (Meinian Campus) 成都外國語學校附屬小學高新美年校區(美年校區)	13 June 2017, the PRC	RMB5,000,000	–	40%*	Provision of elementary school education services
Chengdu Experimental Foreign Languages School of Quxian 渠縣成都市實驗外國語學校	12 Mar 2018, the PRC	RMB1,000,000	–	100%	Provision of middle school education services
Virscend High school of Quxian 渠縣成實外高級中學有限公司	5 Sep 2018, the PRC	RMB1,000,000	–	100%	Provision of high school education services

1. CORPORATE AND GROUP INFORMATION – *CONTINUED*

(a) The 24.30% sponsor's interest held by Xinhua Winshare Publishing and Media Co., Ltd. ("Xinhua Winshare") 新華文軒出版傳媒股份有限公司 entitled it to receive an annual fixed dividend equaling to 8%, 9% and 10% of its total investment amounting to RMB260,000,000 in the University in 2009, 2010 and 2011 and onwards. Accordingly, the non-controlling interest held by Xinhua Winshare was accounted for in its entirety as a financial liability on the consolidated statement of financial position even if that is non-redeemable because the net present value of the right to receive the fixed dividend is greater than the issue proceeds in 2015.

On 15 November 2016, Sichuan Derui Enterprise Development Co., Ltd. ("Sichuan Derui") and Xinhua Winshare entered into the school sponsor's interest transfer agreement, pursuant to which Xinhua Winshare agreed to sell and Sichuan Derui agreed to purchase 24.30% of the school sponsor's interest in the University at a cash consideration of RMB260,250,000. On 25 November 2016, the Group paid the consideration of RMB260,250,000 to Sichuan Derui to acquire 24.30% of the school sponsor's interest in the University.

The transfer of the sponsor's interest mentioned above was in progress as at the date of approval of these consolidated financial statements and is expected to be completed within the year of 2019.

* These schools are accounted for as subsidiaries of the Group based on the factors explained in note 3 to the financial statements even though the Group has equity interests ranging from 40% to 47% in these schools.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs, which comprise all standards and interpretations issued by IASB and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, except for financial liability at fair value through profit or loss which has 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.

Going concern

The Group had net current liabilities of approximately RMB556,227,000 as at 31 December 2018. The directors of the Company have considered the following factors:

- the Group's expected cash inflows from operating activities in 2019;
- the directors of the Company are also confident that bank borrowings, which will expire during the next 12 months, could be renewed upon expiration based on the Group's past experience and credit standing.

The directors of the Company believe that the Group has adequate resources to continue operation for the foreseeable future of not less than 12 months from the end of the reporting period. The directors of the Company therefore are of the opinion that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

2.1 BASIS OF PREPARATION – *CONTINUED*

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Except for the amendments to IFRS 2, amendments to IFRS 4, amendments to IAS 40 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs amendments are described below:

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

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – *CONTINUED*

(a) – *CONTINUED*

Classification and measurement – CONTINUED

	Category	IAS 39 measurement Amount RMB'000	Category	IFRS 9 measurement Amount RMB'000
Financial assets				
Financial assets included in prepayments, other receivables and other assets	L&R[1]	7,584	AC	7,584
Pledged deposits	L&R	267,488	AC	267,488
Cash and cash equivalents	L&R	294,107	AC	294,107
Due from related parties	L&R	5,000	AC	5,000
Total		574,179		574,179
Financial liabilities				
Financial liabilities included in other payables and accruals	AC[2]	116,969	AC	116,969
Due to related parties	AC	14,349	AC	14,349
Interest-bearing bank borrowings	AC	919,037	AC	919,037
Total		1,050,355		1,050,355

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

The Group has performed an assessment and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – *CONTINUED*

(a) – *CONTINUED*

Impairment

After reconciling the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9, the impact of IFRS 9 is immaterial.

(b) IFRS 15 and its amendments replace IAS11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

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

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

There was no financial impact of the transition to IFRS 15 on the Group's retained profits at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES – *CONTINUED*

(b) – *CONTINUED*

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

	Note	Increase/(decrease) RMB'000
Deferred revenue	20	(585,982)
Contract liabilities	20	585,982
Total liabilities		—

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows.

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
	Note	IFRS15 RMB'000	Previous IFRS RMB'000	Increase/(decrease) RMB'000
Deferred revenue	20	—	712,163	(712,163)
Contract liabilities	20	712,163	—	712,163
Total liabilities		712,163	712,163	—

(c) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non- monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS3, IFRS11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS – *CONTINUED*

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB in December 2015 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

IFRS 16 replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees–leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in IFRS 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 IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of RMB287,848,000 and lease liabilities of RMB300,679,000 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS – *CONTINUED*

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

Amendments to IAS 28 clarify that the scope exclusion of IFRS 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 IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 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 Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates 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.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or 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 associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Business combination and goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Business combination and goodwill – *CONTINUED*

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

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

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), 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 the statement of 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 the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. 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 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	1.8% to 10%
Leasehold improvements	4.5% to 18.0%
Computer equipment	2.4% to 18.0%
Furniture and fixtures	9.0% to 31.0%
Motor vehicles	9.0% to 30.0%

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

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

Construction in progress represents 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*

Intangible assets (other than goodwill)

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

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

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

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

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

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

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

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

General approach

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) – *CONTINUED*

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.

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

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

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

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

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

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

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as 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 trade and other payables and accruals, an amount due to the ultimate holding company, financial liability at fair value through profit or loss and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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 designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of 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 the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

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

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

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 designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

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

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

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

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

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

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

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

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 and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 and associates, 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 statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

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

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

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

Service income includes tuition fees and boarding fees from colleges, elementary schools, middle schools and high schools of the Group and tuition fees from preschool services.

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

Management and consultation service fees from customers for the provision of education management and consulting service. Revenue is recognised when the related services are provided.

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

Other income

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Revenue recognition (applicable before 1 January 2018)

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

Service income includes tuition fees and boarding fees from colleges, elementary schools, middle schools and high schools of the Group and tuition fees from preschool services.

The tuition fees from the schools of the Group are paid in advance at the beginning of each academic year. Revenue is recognised after a service contract is signed, the price is fixed or determinable, and services are provided.

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

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

Contract liabilities (applicable from 1 January 2018)

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

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 the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

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. Proposed final dividends are disclosed in the notes to the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *CONTINUED*

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional 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 the statement of 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).

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 are translated into RMB at the weighted average exchange rates for the year.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, 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

Certain subsidiaries are engaged in the provision of education services, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

The Group exercises control over these subsidiaries and enjoys all economic benefits of these certain subsidiaries through the structured contracts.

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

De facto control over subsidiaries in which the Group holds less than a majority of equity interests

The Company's directors and the Group's management are of the view that the Group has rights to variable returns from its involvement with the schools and has the ability to affect those returns through its power over the schools although the Group held less than 50% of their equity interests, after considering that the Company is entitled to nominate more than two-thirds of the board members of these schools and therefore has the ability to affect those returns from those schools.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – *CONTINUED*

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of the 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 to sell and its value in use. The calculation of the fair value less costs to sell 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.

Impairment of investments in associates

The Group assesses whether there are any indicators of impairment for investments in associates at the end of each reporting period. Investments in associates are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of investments in associates 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 investments in associates. When value in use calculations are undertaken, the Group must estimate the expected future cash flows from investments in associates and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15.

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 reporting period based on changes in circumstances. Further details of the property, plant and equipment are set out in note 13 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES – *CONTINUED*

Estimation uncertainty – *CONTINUED*

Income tax

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

4. OPERATING SEGMENT INFORMATION

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

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to segments and to assess their performance. The information reported to the directors 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 expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

No sales to a single customer contribute 10% or more to the total revenue of the Group during the year.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Note	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers (Note (i))			
Tuition fees		**1,120,649**	911,497
Boarding fees		**46,047**	41,270
Management and consultation service fees		**1,258**	—
		1,167,954	952,767
Other income and gains			
Bank interest income	6	**1,305**	3,380
Other interest income (Note (ii))	6	**10,203**	—
Foreign exchange difference,net (Note (iii))	6	**7,286**	—
Fee sharing income		**374**	777
Government grants			
– related to assets		**2,349**	1,116
– related to income		**5,300**	5,316
Gain from derecognition of contingent consideration (Note (iv))		**10,508**	—
Others		**5,547**	5,641
		42,872	16,230

(i) Revenue from contracts with customers

(a) Disaggregated revenue information

	2018 RMB'000
Timing of revenue recognition	
Tuition fees recognised over time	**1,120,649**
Boarding fees recognised over time	**46,047**
Management and consultation service fees	**1,258**
	1,167,954

The Group's tuition and boarding services contracts can be terminated anytime with compensation of 20% of tuition fees after the registration date. Tuition and boarding fees are determined and paid by the students before the start of each academic year while the ancillary services are charged based on students' usage at fixed rate.

5. REVENUE, OTHER INCOME AND GAINS – *CONTINUED*

(i) Revenue from contracts with customers – continued

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

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Tuition fees	**560,081**
Boarding fees	**25,901**
	585,982

No revenue recognised during the year related to performance obligations that were satisfied in prior years.

(c) Transaction price allocated to the remaining performance obligations for contracts with customers.

The contracts for tuition and boarding services are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

(ii): Other interest income recorded in 2018 is generated from third-party borrowings. For more information, please refer to note 17.

(iii): Foreign exchange difference recorded in 2018 is generated from translation of the Hong Kong dollar ("HKD") bank deposits resulting from the depreciation of Renminbi against the Hong Kong dollar.

(iv): The amount is derived from the derecognition of contingent consideration related to the acquisition of an associate. For more information, please refer to note 15.

6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations 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, salaries and other allowances		**351,479**	326,414
Pension scheme contributions (defined contribution scheme)		**51,622**	37,727
Depreciation of property, plant and equipment	13	**120,350**	76,843
Amortisation of intangible assets		**469**	66
Amortisation of land lease payments	14	**10,942**	10,824
Impairment of investment in an associate*	15	**7,221**	—
Minimum lease payments under operating leases		**33,687**	22,086
Auditor's remuneration			
– audit service		**2,584**	2,514
– non-audit service		**160**	252
Bank interest income	5	**(1,305)**	(3,380)
Other interest income	5	**(10,203)**	—
Foreign exchange difference, net**		**(7,286)**	24,759
Loss on disposal of items of property, plant and equipment		**80**	31

* Impairment of investment in an associate for the year is included in "Other expenses" in the consolidated statement of profit or loss.

** Foreign exchange difference included in "other (income)/expenses" in the consolidated statement of profit or loss is generated from the translation of the Hong Kong dollar bank deposits resulting from the fluctuation of the exchange rate between Renminbi and the Hong Kong dollar.

7. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	**54,030**	52,815
Less: interest capitalised	**(3,407)**	(14,504)
	50,623	38,311

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Yan Yude was appointed as an executive director of the Company in March 2015, while Ms. Wang Xiaoying, Mr. Ye Jiayu and Mr. Xu Ming were appointed as executive directors of the Company in August 2015. Mr. Sit Chiu Wing, Mr. Chan Kim Sun and Ms. Xu Dayi were appointed as independent non-executive directors of the Company in December 2015, and Mr. Xu Ming was appointed as the chief executive of the Company in August 2015. The Company did not have any non-executive directors at anytime during the year ended 31 December 2018.

During the year 2018, Mr. Yan Yude was appointed as the chief executive officer on 15 November 2018, Mr. Deng Bangkai was appointed as an executive director and the chief operating officer on 15 November 2018,. and Mr Wen Ruizheng was appointed as independent non-executive director on 15 November 2018. Meanwhile, Mr. Xu Ming resigned as an executive director and the chief executive officer, and Ms. Xu Dayi resigned as an independent non-executive director on 15 November 2018.

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
Salaries, allowances and benefits in kind	**4,232**	4,102
Pension scheme contributions	**45**	36
	4,277	4,138

(a) Independent non-executive directors

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

	2018 **RMB'000**	2017 RMB'000
Mr. Sit Chiu Wing	**104**	104
Mr. Chan Kim Sun	**104**	104
Ms. Xu Dayi*	**71**	82
Mr. Wen Ruizheng**	**11**	—
	290	290

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

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION – *CONTINUED*

(b) Executive directors and the chief executive

2018	**Salaries, allowances and benefits in kind RMB'000**	**Pension scheme contributions RMB'000**	**Total remuneration RMB'000**
Executive directors:			
Ms. Wang Xiaoying	**865**	**—**	**865**
Mr. Ye Jiayu	**865**	**—**	**865**
Mr. Deng Bangkai***	**225**	**1**	**226**
Executive directors and chief executive:			
Mr. Xu Ming****	**1,122**	**44**	**1,166**
Mr. Yan Yude*****	**865**	**—**	**865**
	3,942	**45**	**3,987**

* Ms. Xu Dayi resigned as an independent non-executive director on 15 November 2018

** Mr Wen Ruizheng was appointed as an independent non-executive director on 15 November 2018

*** Mr. Deng Bangkai was appointed as an executive director and the chief operating officer on 15 November 2018

**** Mr. Xu Ming resigned as an executive Director and the chief executive officer on 15 November 2018

***** Mr. Yan Yude was appointed as the chief executive officer on 15 November 2018

2017	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:			
Mr. Yan Yude	863	—	863
Ms. Wang Xiaoying	863	—	863
Mr. Ye Jiayu	863	—	863
	2,589	—	2,589
Executive director and chief executive:			
Mr. Xu Ming	1,223	36	1,259
	3,812	36	3,848

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 of the Group during the year include 4 directors (2017: 4), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining 1 (2017: 1) highest paid employee who is neither a director nor chief executive of the Group are as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries, allowances and benefits in kind	**430**	559
Pension scheme contributions	**—**	10
	430	569

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

	2018	2017
Nil to RMB1,000,000	**1**	1

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.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any tax in the British Virgin Islands.

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits in Hong Kong during the year.

According to 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 polices applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council.

10. INCOME TAX – *CONTINUED*

Based on the historical tax returns filed to the relevant tax authorities and the confirmations obtained previously from the local tax bureaus and local offices of the State Administration of Taxation, certain schools within the Group were exempted from corporate income tax in 2018.

Tibet Huatai is subject to the PRC income tax rate of 15%, since the three-year exemption granted by the Tibet local government expired in accordance with the relevant tax regulations in 2017.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates. The income tax expenses of the Group for the year are analysed as follows:

	2018 **RMB'000**	2017 RMB'000
Current – PRC		
Charge for the year	**6,347**	7,212
Total tax charge for the year	**6,347**	7,212

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries 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 rates, are as follows:

	2018		2017	
	RMB'000	**%**	RMB'000	%
Profit before tax	**369,508**		322,077	
Tax at the statutory tax rate	**92,247**	**25.0**	80,520	25.0
Lower tax rate(s) for specific provinces or enacted by local authority	**(11,890)**	**(3.1)**	16,719	5.2
Expenses not deductible for tax	**1,547**	**0.4**	419	0.1
Tax losses utilised from previous periods	**(6,550)**	**(1.9)**	(1,096)	(0.3)
Tax losses not recognised	**422**	**0.1**	836	0.3
Income not subject to tax	**(69,429)**	**(18.8)**	(90,186)	(28.0)
Tax charge at the Group's effective rate	**6,347**	**1.7**	7,212	2.2

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.

Deferred tax assets have not been recognised in respect of the losses amounting to RMB18,302,000 as at 31 December 2018 (31 December 2017: RMB26,564,000) 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 taxable losses can be utilised.

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. In the opinion of the directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,347,841,000 as at 31 December 2018 (31 December 2017: RMB1,111,869,000).

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

11. DIVIDENDS

	2018 HKD'000	2017 HKD'000
Interim – HK4.0 cents (2017: Nil) per ordinary share	**108,143**	—
Proposed final – HK4.0 cents (2017: HK4.0 cents) per ordinary share	**108,255**	102,065
	216,398	102,065

A final dividend of HK4.0 cents per share in respect of the year ended 31 December 2017 proposed by the Board has been approved by the shareholders at the annual general meeting of the Company and dividends of RMB102,065,000 have been declared by the Company in June 2018, among which RMB104,959,000 have been paid by 31 December 2018.

An interim dividend of HK4.0 cents per share in respect of the period ended 30 June 2018 proposed by the Board has been approved by the shareholders at the annual general meeting of the Company and dividends of RMB108,143,000 have been declared by the Company in October 2018, among which RMB105,780,000 have been paid by 31 December 2018.

A final dividend of HK4.0 cents per share in respect of the year ended 31 December 2018 (2017: HK4.0 cents per share) has been proposed by Borad and is subject to the approval by the shareholders at the forthcoming annual general meeting of the Company.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 3,088,761,000 (2017: 3,088,761,000) in issue during the year.

There were no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017, and therefore the diluted earnings per share amounts were equivalent to the basic earnings per share amounts.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**356,371**	306,374
Shares		
Weighted average number of ordinary shares in issue	**3,088,761,000**	3,088,761,000
Basic and diluted earnings per share (expressed in RMB per share)	**0.12**	0.10

13. PROPERTY, PLANT AND EQUIPMENT

	Property and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	2,379,213	114,808	17,021	57,792	243,442	904,389	3,716,665
Accumulated depreciation	(179,338)	(60,580)	(10,187)	(38,294)	(178,296)	–	(466,695)
Net carrying amount	2,199,875	54,228	6,834	19,498	65,146	904,389	3,249,970
At 1 January 2018, net of accumulated depreciation	2,199,875	54,228	6,834	19,498	65,146	904,389	3,249,970
Additions	30,211	185,762	1,361	45,423	84,608	68,005	415,370
Disposals	–	–	(838)	(124)	(31)	–	(993)
Depreciation provided during the year (note 6)	(68,947)	(27,055)	(1,783)	(5,369)	(17,196)	–	(120,350)
Transfer from construction in progress	644,394	–	–	–	–	(644,394)	–
At 31 December 2018, net of accumulated depreciation	2,805,533	212,935	5,574	59,428	132,527	328,000	3,543,997
At 31 December 2018:							
Cost	3,053,818	300,570	17,544	103,091	328,019	328,000	4,131,042
Accumulated depreciation	(248,285)	(87,635)	(11,970)	(43,663)	(195,492)	–	(587,045)
Net carrying amount	2,805,533	212,935	5,574	59,428	132,527	328,000	3,543,997

At 31 December 2018, properties amounting to RMB328,000,000 for which the Group was in process of obtaining the land and building certificates.

13. PROPERTY, PLANT AND EQUIPMENT – *CONTINUED*

	Property and buildings RMB'000	Leasehold improvements RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017							
At 1 January 2017:							
Cost	2,017,897	114,808	14,231	47,084	220,679	493,332	2,908,031
Accumulated depreciation	(133,383)	(43,417)	(8,893)	(35,643)	(168,516)	–	(389,852)
Net carrying amount	1,884,514	71,391	5,338	11,441	52,163	493,332	2,518,179
At 1 January 2017, net of accumulated depreciation	1,884,514	71,391	5,338	11,441	52,163	493,332	2,518,179
Additions	89,080	–	2,790	10,734	22,774	683,293	808,671
Disposals	–	–	–	(26)	(11)	–	(37)
Depreciation provided during the year (note 6)	(45,955)	(17,163)	(1,294)	(2,651)	(9,780)	–	(76,843)
Transfer	272,236	–	–	–	–	(272,236)	–
At 31 December 2017, net of accumulated depreciation	2,199,875	54,228	6,834	19,498	65,146	904,389	3,249,970
At 31 December 2017:							
Cost	2,379,213	114,808	17,021	57,792	243,442	904,389	3,716,665
Accumulated depreciation	(179,338)	(60,580)	(10,187)	(38,294)	(178,296)	–	(466,695)
Net carrying amount	2,199,875	54,228	6,834	19,498	65,146	904,389	3,249,970

At 31 December 2017, properties amounting to RMB328,000,000 for which the Group was in progress of obtaining land and building certificates.

14. PREPAID LAND LEASE PAYMENTS

	Note	**2018 RMB'000**	2017 RMB'000
Carrying amount at beginning of year		**392,436**	403,260
Recognised during the year	6	**(10,942)**	(10,824)
Carrying amount at end of year		**381,494**	392,436
Current portion included in prepayments, other receivables and other assets	17	**(11,029)**	(10,813)
Non-current portion		**370,465**	381,623

15. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**38,844**	40,997
Goodwill on acquisition	**27,195**	27,195
	66,039	68,192
Provision for impairment	**(7,221)**	—
	58,818	68,192

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Oriental Babycare	Ordinary shares	Beijing	29.60	Provision of early years education services

The Group's shareholdings in the associates all comprise equity shares held by the Company.

Oriental Babycare, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the early years education services and is accounted for using the equity method. The Group has paid RMB49,238,000 to the original shareholders of Oriental Babycare for the acquisition.

In 2017,as part of the purchase agreement, a contingent consideration is payable, which is dependent on the amount of adjusted net profit of Oriental Babycare agreed by contractual parties for the years ended 31 December 2017, 2018 and 2019. The fair value of contingent consideration was RMB26,891,000 at 31 December 2017. The initial amount recognised was RMB29,134,000, which was determined using the discounted cash flow model and is within Level 3 fair value measurement.

The contingent consideration was due for final measurement and payment to the former shareholders on 31 May 2017. The fair value of contingent consideration was RMB26,891,000 at 31 December 2017.

In year 2018, pursuant to the purchase agreement provisions indicated in the supplementary agreements, as the audited net profit of Oriental Babycare failed to achieve the agreed net profit, the Group terminated the purchase agreement. The contingent consideration of RMB26,891,000 was derecognised and a purchase payable of RMB16,383,000 and a gain of RMB10,508,000 was recognised accordingly. And as of 31 December 2018, the remaining consideration of RMB4,956,000 should be paid subsequently.

15. INVESTMENTS IN ASSOCIATES – *CONTINUED*

As Oriental Babycare's business performance did not improve in 2018 and also failed to meet the agreed net profits, the Group performed an impairment test on this investment. As at 31 December 2018, the recoverable amount of this investment valued using the discounted future cash flow method was approximately RMB195,000,000 and therefore an impairment loss of RMB7,221,000 was made for this investment in 2018. The discount rate applied in the valuation is 17%. The impairment for this investment is included in other expenses in the consolidated statement of comprehensive income.

The following table illustrates the summarised financial information in respect of Oriental Babycare adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 RMB'000	2017 RMB'000
Current assets	**26,874**	18,125
Non-current assets, excluding goodwill	**193,314**	183,868
Goodwill on acquisition of the associate	**83,938**	146,332
Current liabilities	**(66,575)**	(67,695)
Non-current liabilities	**—**	—
Net assets	**237,551**	280,630
Net assets/(liabilities), excluding goodwill	**153,613**	134,298

	2018 RMB'000	2017 RMB'000
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	**29.60%**	29.60%
Group's share of net assets/(liabilities) of the associate, excluding goodwill	**45,469**	39,752
Goodwill on acquisition (less cumulative impairment)	**19,974**	27,195
Carrying amount of the investment	**57,720**	67,598

	2018 RMB'000	**For the period from the acquisition date to 31 December** 2017 RMB'000
Revenue	**76,472**	49,414
Profit	**(244)**	7,294
Total comprehensive income	**(244)**	7,294

15. INVESTMENTS IN ASSOCIATES – *CONTINUED*

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the associates' profit for the year	**504**	(6)
Share of the associates' total comprehensive income	**504**	(6)
Aggregate carrying amount of the Group's investments in the associates	**1,098**	594

16. OTHER NON-CURRENT ASSETS

	Note	**2018 RMB'000**	2017 RMB'000
Advance payment for construction	(i)	**24,416**	33,446
Advance payment for equipment	(ii)	**5,961**	48,041
		30,377	81,487

(i): The consideration of RMB24,416,000 is mainly for the construction of Chengdu Foreign Languages School which has been prepaid by the Group as of 31 December 2018. The consideration of RMB31,909,000 for the construction work of Wenjiang Campus has been prepaid by the Group as of 31 December 2017 and completed in year 2018.

(ii): The consideration of RMB5,961,000 (2017: RMB48,041,000) has been paid for the purchase of equipment which has not been delivered to or accepted by the Group as of 31 December 2018.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	2018 RMB'000	2017 RMB'000
Prepaid land lease payments (current portion)	14	**11,029**	10,813
Loan and interest receviables (Note (i))		**160,033**	—
Deposits and other receivables		**44,292**	10,021
Prepayments		**4,348**	9,658
Advance to staff		**948**	1,258
Advances paid on behalf of others		**11,044**	9,497
		231,694	41,247

(i): During this year, the Group provided loans to third-party companies for their daily operation needs. As of 31 December 2018, the total loan and interest receivables amounted to RMB160,033,000.

The remaining receivables will be settled within 12 months and have no historical default. The financial assets included in the above balance were categorised in stage 1 for the measurement of expected credit losses 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 current year, the Group estimated the expected loss rate for the other receivables will be minimal.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	2018 RMB'000	2017 RMB'000
Cash and bank balances		**639,392**	294,107
Time deposits		**52,572**	267,488
		691,964	561,595
Less:			
Time deposits with original maturity of over three months:		**(52,572)**	—
Pledged for long-term bank loans	21	**—**	(267,488)
Cash and cash equivalents		**639,392**	294,107

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB602,938,000 (2017: RMB266,978,000). The RMB is not freely convertible into other currencies, however, under mainland China 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.

19. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Payables for purchase of fixed assets and construction	**119,177**	30,074
Miscellaneous expenses received from students (Note (i))	**20,051**	25,467
Guarantee deposit and advance for other agencies	**18,125**	11,929
Accrued payrolls	**15,490**	8,256
Rental payable	**13,602**	2,090
Interest payable	**13,000**	14,352
Accrued expense	**10,869**	13,876
Dividends payable	**8,872**	3,950
Acquisition consideration payable for an associate	**4,956**	—
Tax payable	**—**	10,130
Others	**13,178**	14,293
	237,320	134,417

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

Other payables are non-interest-bearing and have an average term of six months.

20. CONTRACT LIABILITIES/DEFERRED REVENUE

Contract liabilities

Details of contract liabilities as at 31 December 2018 are as follows:

	31 December 2018 RMB'000
Tuition fees	**681,976**
Boarding fees	**30,187**
	712,163

Deferred revenue

	31 December 2017 RMB'000
Tuition fees	560,081
Boarding fees	25,901
	585,982

Contract liabilities include short-term advances received from students in relation to the proportionate service not yet provided. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the applicable program. The students are entitled to the refunds of payments in relation to the proportionate service not yet provided.

The increase in contract liabilities in 2018 was mainly due to the increase in tuition and boarding fees received from students in relation to the increasing number of new registered students during the year.

21. INTEREST-BEARING BANK BORROWING

31 December 2018

	2018			2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**5.22-7.00**	**2019**	**474,000**	2.45-7.25	2018	628,037
			474,000			628,037
Non-current						
Bank loans – secured	**5.64-7.13**	**2033**	**608,000**	2.45-7.84	2020	291,000
			608,000			291,000
			1,082,000			919,037

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**474,000**	628,037
In the second year	**190,000**	—
In the third to fifth years, inclusive	**418,000**	291,000
	1,082,000	919,037

Certain of the Group's bank borrowings amounting to RMB1,082,000,000 (2017: RMB659,037,000) as at 31 December 2018 were secured or guaranteed by Sichuan Derui, Mr. Yan Yude and Mrs. Wang Xiaoying.

The Group's overdraft facilities amounting to RMB700,000,000 (2017:RMB700,000,000), of which RMB200,000,000 (2017: RMB460,000,000) had been utilised as at 31 December 2018, are secured by guarantee contracts signed by Mr. Yan Yude amounting to RMB200,000,000.

The remaining overdraft facilities amounting to RMB500,000,000 require a security of pledged deposit with no less than 97% of the Group's overdraft loan balance. The Group did not utilise those amounts as at 31 December 2018.

22. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
At beginning of year	**6,235**	6,889
Received amounts	**8,000**	462
Charged to profit or loss	**(3,418)**	(1,116)
At end of year	**10,817**	6,235
Current	**2,073**	354
Non-current	**8,744**	5,881
	10,817	6,235

The grants are related to the subsidies received from the government for the purpose of compensating for the expenses arising from operating activities and improvement of teaching facilities on certain special projects. 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 the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

23. SHARE CAPITAL

Shares	2018 RMB'000	2017 RMB'000
Issued and fully paid:		
3,088,761,000 (2017: 3,088,761,000) ordinary shares of HK1.0 cents each	**26,051**	26,051

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

	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2017	3,088,761,000	26,051	–	26,051
At 31 December 2017 and 1 January 2018	**3,088,761,000**	**26,051**	**–**	**26,051**
At 31 December 2018	**3,088,761,000**	**26,051**	**–**	**26,051**

24. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 92 of the financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from its then sponsors of the subsidiaries and deemed acquisition of a non-controlling interest held by persons other than the controlling shareholders.

(b) Statutory surplus reserve

Pursuant to the relevant laws in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries. These reserves include (i) the general reserve of the limited liability companies and (ii) the development fund of schools.

1) In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

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

25. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

There were no major non-cash transactions during the current financial year.

(b) Changes in liabilities arising from financing activities

2018

	Bank and other loans RMB'000	Amount due to a shareholder RMB'000
At 1 January 2018	**919,037**	**(3,950)**
Changes from financing cash flows	**161,000**	**—**
Dividends payable	**—**	**(4,922)**
Interest expense	**1,963**	**—**
At 31 December 2018	**1,082,000**	**(8,872)**

2017

	Bank and other loans RMB'000	Amount due to a shareholder RMB'000
At 1 January 2017	994,284	—
Changes from financing cash flows	(76,190)	—
Dividends payable	—	(3,950)
Interest expense	943	—
At 31 December 2017	919,037	(3,950)

26. CONTINGENT LIABILITIES

As at 31 December 2018 and 2017, the Group did not have any significant contingent liabilities.

27. COMMITMENTS

Capital commitments

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:		
Land and buildings, equipment	**19,741**	13,811
Capital contributions payable to an associate	**—**	6,900
	19,741	20,711

Operating lease commitments

As lessee

The Group leases certain of its buildings under operating lease arrangements. Leases for buildings were negotiated for terms of 1 to 20 years. At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**20,975**	12,747
In the second to fifth years, inclusive	**34,096**	10,245
Beyond five years	**63,284**	15,746
	118,355	38,738

On 22 September 2015, the Group entered into a cooperation agreement with the local government of Panzhihua City in Sichuan Province and its related state-owned investment company. Under the agreement, the Group will lease the premises for the new school under a separate lease agreement. The lease term for the school premises will be 20 years beginning on 1 September 2017 and the Group will pay to the state-owned investment company rental fees based on 8% of the total amount of tuition fees charged every semester for the school premises beginning in the fourth year of the rental period.

In 2018, the group opened Quxian campus and signed lease agreement for schools would be opened the next two years for 20 years, which lead to increase of payment beyond five years.

28. RELATED PARTY TRANSACTIONS

(a) Names and relationships of related parties

Name	Relationship
Mr. Yan Yude	Director of the Company
Ms. Wang Xiaoying	Spouse of Mr. Yan Yude
Sichuan Derui	A company controlled by Mr. Yan Yude
Chengdu Tianren Property Development Co., Ltd ("Tianren Property")	A company controlled by Mr. Yan Yude's relatives
Hongming Property	A company controlled by Mr. Yan Yude's relatives
USA Tianren Hotel Management Inc. ("USA Tianren Hotel")	A company controlled by Ms. Xie Suhua, mother of Mr. Yan Yude
Chengdu Tianchen Construction Real Estate Co., Ltd. ("Tianchen Estate")	A company controlled by Mr. Yan Yude and Ms. Wang Xiaoying
Derui Hui Gou Transportation (Group) Company Limited ("Hui Gou")	A company controlled by Mr. Yan Yude's relatives
Oriental Babycare	An associate
Chengdu Foreign Languages School - Gaoxin Campus ("Gaoxin Campus")	An associate

As disclosed in the consolidated statement of financial position, the Group had outstanding balances due to related parties at 31 December 2017 and 2018.

28. RELATED PARTY TRANSACTIONS – *CONTINUED*

(b) Outstanding balances with related parties

Amounts due from related parties

	2018 RMB'000	2017 RMB'000
Oriental Babycare	**5,147**	5,000
Gaoxin Campus	**727**	—
	5,874	5,000

Amounts due to related parties

	2018 RMB'000	2017 RMB'000
Sichuan Derui	**28,517**	13,383
USA Tianren Hotel	**3,338**	—
Mr. Yan Yude	**1,373**	—
Gaoxin Campus	**—**	966
	33,228	14,349

The amounts due from/due to related parties are unsecured and interest-free.

28. RELATED PARTY TRANSACTIONS – *CONTINUED*

(c) Other related party transactions

1) During the year, the Group entered into the following transactions with its related parties:

	Note	Nature of transaction	2018 RMB'000	2017 RMB'000
Sichuan Derui		Property Lease	**10,179**	12,875
Gaoxin Campus		Management service	**974**	—
Hongming Property	(i)	Procurement of property, plant and equipment and leasehold lands	**—**	131,200
USA Tianren Hotel		Property Lease	**—**	485
Tianren Property		Property Lease	**6**	6

(i) The procurements of property, plant and equipment and leasehold lands from Hongming Property were made at the prices mutually agreed between the Group and Hongming Property by reference to the valuation of the properties at RMB328,000,000 as at 30 September 2016, as assessed by DTZ Cushman & Wakefield Limited, a firm of independent professional valuers. The remaining amount of the total consideration of RMB131,200,000 had been fully paid by 31 December 2017. The Group was in the process of obtaining the land and building certificates.

2) Certain of the Group's bank and other borrowings amounting to RMB1,082,000,000 at 31 December 2018 were secured or guaranteed by related parties: Sichuan Derui, Mr. Yan Yude and Mrs. Wang Xiaoying.

Certain of the Group's bank and other borrowings amounting to RMB659,037,000 at 31 December 2017 were secured or guaranteed by related parties: Sichuan Derui, Tianren Property, Tianchen Estate, Liheng Investment, Hui Gou and Mr. Yan Yude, and third parties: Dewanxing, Kanglisi Engineering, Xinyuan Estates and Hongyi Industries.

(d) Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Salaries, allowances and benefits in kind	**5,164**	6,818
Pension scheme contributions	**30**	68
	5,194	6,886

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The related party transactions in respect of items (c) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the year are as follows:

2018

Financial assets

	Financial assets at amortised cost RMB'000	Total RMB'000
Amounts due from related parties	5,874	5,874
Financial assets included in prepayments, other receivables and other assets	204,325	204,325
Time deposit	52,572	52,572
Cash and cash equivalents	639,392	639,392
	902,163	902,163

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Total RMB'000
Amounts due to related parties	33,228	33,228
Financial liabilities included in other payables and accruals	215,270	215,270
Interest-bearing bank borrowings	1,082,000	1,082,000
	1,330,498	1,330,498

29. FINANCIAL INSTRUMENTS BY CATEGORY – *CONTINUED*

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the year are as follows – continued:

2017

Financial assets

	Loans and receivables RMB'000	Total RMB'000
Amounts due from related parties	5,000	5,000
Financial assets included in prepayments, other receivables and other assets	7,584	7,584
Cash and cash equivalents	294,107	294,107
Pledged deposits	267,488	267,488
	574,179	574,179

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Amounts due to related parties	14,349
Financial liabilities included in other payables and accruals	116,969
Interest-bearing bank borrowings	919,037
	1,050,355

30. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial Liabilities				
Interest-bearing bank borrowings	**1,082,000**	919,037	**1,082,000**	919,037
	1,082,000	919,037	**1,082,000**	919,037

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, other receivables and other assets and amounts due to related parties approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2017 and 2018 was assessed to be insignificant.

30. 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:

There was no financial asset measured at fair value as at 31 December 2018 and 31 December 2017.

Assets for which fair values are disclosed:

There was no financial asset disclosed at fair value as at 31 December 2018 and 31 December 2017.

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**
Interest-bearing bank borrowings	**—**	**1,082,000**	**—**	**1,082,000**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	919,037	—	919,037
Financial liability at fair value through profit or loss	—	—	26,891	26,891

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and cash equivalents and time deposit. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables, amounts due to related parties and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's fair value interest rate risk relates primarily to its fixed-rate bank borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest-bearing financial assets and liabilities, mainly bank balances and bank borrowings (note 21) which carry interest at prevailing market interest rates. It is the Group's policy to keep certain borrowings at floating rates of interest so as to minimise the fair value 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.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable rate bank borrowings at the end of each reporting period and assumed that the amount of liabilities outstanding at the end of each 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 years ended 31 December 2017 and 2018 would decrease/increase by RMB3,155,000 and RMB3,910,000 respectively. This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure at the end of the year does not reflect the exposure during the respective years.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from the proceeds denominated in HKD from the IPO and over-allotment option. The forward contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HKD and RMB, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in HKD/RMB rate %	Increase/ (decrease) in profit before tax RMB'000
2018		
If the RMB weakens against the Hong Kong dollar	**5**	**3,802**
If the RMB strengthens against the Hong Kong dollar	**5**	**(3,802)**
2017		
If the RMB weakens against the Hong Kong dollar	5	14,521
If the RMB strengthens against the Hong Kong dollar	5	(14,521)

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Credit risk

Maximum exposure and year-end staging as at 31 December 2018

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. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
				Simplified	
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets					
– Normal*	**204,325**	**—**	**—**	**—**	**204,325**
Time deposit	**52,572**				**52,572**
Cash and cash equivalents	**639,392**	**—**	**—**	**—**	**639,392**
Due from related parties	**5,874**	**—**	**—**	**—**	**5,874**
	902,163	**—**	**—**	**—**	**902,163**

* The credit quality of the financial assets included in prepayments, other receivables and other assets 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".

Maximum exposure as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposit and amounts due from associates and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type. There are no significant concentrations of credit risk within the Group.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the year, based on the contractual undiscounted payments, was 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**
Bank borrowings – *fixed rate*	**—**	**104,248**	**208,452**	**—**	**—**	**312,700**
Bank borrowings – *variable rate*	**—**	**42,510**	**648,272**	**472,565**	**289,057**	**1,452,404**
Amounts due to related parties	**33,228**	**—**	**—**	**—**	**—**	**33,228**
Financial liabilities included in other payables and accruals	**182,445**	**—**	**—**	**—**	**—**	**182,445**
	215,673	**146,758**	**856,724**	**472,565**	**289,057**	**1,980,777**

	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
Bank borrowings – *fixed rate*	—	117,563	182,589	—	—	300,152
Bank borrowings – *variable rate*	248,901	2,050	104,447	302,298	—	657,696
Amounts due to related parties	966	—	—	13,383	—	14,349
Financial liabilities included in other payables and accruals	90,078	—	7,778	19,113	—	116,969
	339,945	119,613	294,814	334,794	—	1,089,166

Capital management

The Group's policy is to maintain a strong capital base so as to maintain the confidence of creditor and the market and to sustain future development of business. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debt, which includes borrowings disclosed in note 21, cash and cash equivalents, and equity attributable to owners of the parent, comprising capital, reserves and retained profits.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – *CONTINUED*

Capital management– continued

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 debt.

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**45**	62
Investments in subsidiaries	**307**	315
Total non-current assets	**352**	377
CURRENT ASSETS		
Cash and cash equivalents	**12,864**	7,583
Prepayments and other receivables	**1,371**	1,234
Due from a related party	**1,273,135**	1,430,232
Total current assets	**1,287,370**	1,439,049
CURRENT LIABILITIES		
Other payables	**1,452**	—
Dividend payable	**8,872**	3,950
Due to a related party	**18,419**	18,023
Total current liabilities	**28,743**	21,973
NET CURRENT ASSETS	**1,258,627**	1,417,076
TOTAL ASSETS LESS CURRENT ASSETS	**1,258,979**	1,417,453
Total non-current liabilities	**—**	—
Net assets	**1,258,979**	1,417,453
Share capital	**26,051**	26,051
Reserves (note)	**1,232,928**	1,391,402
Total equity	**1,258,979**	1,417,453

32. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – *CONTINUED*

Note:

A summary of the Company's reserves is as follows:

	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2017	1,630,489	—	64,803	1,695,292
Loss for the year	—	—	(114,703)	(114,703)
Total comprehensive income for the year	—	—	(114,703)	(114,703)
2016 final dividend declared	(189,187)	—	—	(189,187)
At 31 December 2017	1,441,302	—	(49,900)	1,391,402

	Capital reserve RMB'000	**Statutory surplus reserve fund RMB'000**	**Retained profits RMB'000**	**Total RMB'000**
At 1 January 2018	**1,441,302**	**—**	**(49,900)**	**1,391,402**
Loss for the year	**—**	**—**	**51,734**	**51,734**
Total comprehensive income for the year	**—**	**—**	**51,734**	**51,734**
2017 final dividend declared	**(102,065)**	**—**	**—**	**(102,065)**
2018 Interim dividend declared	**(108,143)**	**—**	**—**	**(108,143)**
Total dividend declared	**(210,208)**	**—**	**—**	**(210,208)**
At 31 December 2018	**1,231,094**	**—**	**1,834**	**1,232,928**

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2019.

DEFINITIONS

"Articles of Association" or "Articles"	the articles of association of the Company as amended, supplemented or otherwise modified from time to time
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Business Cooperation Agreements"	the business cooperation agreements entered into on 7 September 2015 and in 2017 by and among Tibet Huatai, Sichuan Derui, the PRC Operating Entities and the Registered Shareholders
"Chengdu Experimental Foreign Languages School"	Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校), a private middle and high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Experimental Foreign Languages School (Western Campus)"	Chengdu Experimental Foreign Languages School (Western Campus)*(成都市實驗外國語學校(西區)), a private middle and high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages Kindergarten" or "Kindergarten"	Kindergarten of the Primary School attached to Chengdu Jinniu District Foreign Languages School* (成都市金牛區成外附小幼稚園), a private kindergarten school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by the Primary School, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages School"	Chengdu Foreign Languages School* (成都外國語學校), a private school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages School of Panzhihua" or "Panzhihua School"	Chengdu Foreign Languages School of Panzhihua*(攀枝花市成都外國語學校), a private middle and high school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Foreign Languages School of Zigong"	Chengdu Foreign Languages School of Zigong* (自貢成都外國語學校), a private primary and middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 47% by Sichuan Derui, 53% by independent third parties

DEFINITIONS

"Chengdu Institute Sichuan International Studies University" or "University"	Chengdu Institute Sichuan International Studies University* (四川外國語大學成都學院), a private university established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 51.87% by Sichuan Derui, 24.3% by Xinhua Winshare and 23.83% by Hongming Property, each a school sponsor. Sichuan International Studies University* (四川外國語大學) is named as a school sponsor entitled to the rights stipulated under the articles of the University and the relevant PRC laws
"Company"	Virscend Education Company Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange (Stock Code: 1565)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed to it in the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of the Company, namely Mr. Yan Yude and Virscend Holdings
"Corporate Governance Code" or "CG Code"	Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules
"Derui Education Management"	Sichuan Derui Education Management Co., Ltd.* (四川德瑞教育管理有限公司), a company established under the laws of the PRC
"Director(s)"	the director(s) of the Company
"Draft Foreign Investment Law"	the draft version of the Foreign Investment Law* (中華人民共和國外國投資法(草案徵求意見稿)) issued by MOFCOM on 19 January 2015 for public consultation
"Directors' Powers of Attorney"	the school director's power of attorney entered into on 7 September 2015 and in 2017 by each of Mr. Yan Yude, Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Jiang Chenglong and Ms. Lv Hongying in favor of Tibet Huatai
"Equity Pledge Agreements"	the equity pledge agreements entered into on 7 September 2015 and in 2017 by and among the Registered Shareholders, Sichuan Derui and Tibet Huata
"Exclusive Call Option Agreements"	the exclusive call option agreements entered into on 7 September 2015 and in 2017 by and among Sichuan Derui, the PRC Operating Entities and Tibet Huatai
"Exclusive Technical Service and Management Consultancy Agreements"	the exclusive technical service and management consultancy agreements entered into on 7 September 2015 and in 2017 by and among Tibet Huatai and the PRC Operating Entities

DEFINITIONS

"Foreign Investment Catalog"	the Guidance Catalog of Industries for Foreign Investment(《外商投資產業指導目錄(2015)》), which was promulgated jointly by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) on 10 March 2015 and became effective from 10 April 2015 and is amended from time to time
"Gaokao"	also known as the National Higher Education Entrance Examinations, an academic examination held annually in the PRC
"Group", "we", "our" or "us"	the Company and its subsidiaries
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Kindergarten of Zigong"	Kindergarten of the Primary School Attached to Chengdu Foreign Languages School of Zigong (自貢成外附小幼稚園有限公司), a private kindergarten school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 47% by Sichuan Derui, 53% by independent third parties
"K-12"	preschool to grade twelve, also known as "fundamental education"
"Listing"	the listing of Shares on the Main Board of the Stock Exchange
"Listing Date"	15 January 2016, being the date on which the Shares of the Company are listed on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Agreements"	a loan agreements entered into on 7 September 2015 and in 2017 by and among Tibet Huatai, Sichuan Derui and the PRC Operating Entities
"Meinian Campus"	Primary School Attached to Chengdu Foreign Languages School-Meinian Campus* (成都外國語學校附屬小學高新美年校區), a private primary school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 40% by Sichuan Derui, 60% by independent third parties
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"PRC" or "China"	The People's Republic of China
"PRC Legal Advisors"	Jingtian & Gongcheng, the legal advisors of the Company as to the PRC laws

DEFINITIONS

"PRC Operating Entities"	consolidated affiliated entities of the Company, namely, Chengdu Foreign Languages School, Chengdu Experimental Foreign Languages School, Chengdu Experimental Foreign Languages School (Western Campus), the University, the Primary School and the Kindergarten, and the newly established Schools in 2017, being the Panzhihua School, the Wulongshan School, the Wulongshan Campus, Kindergarten of Zigong, the Chengdu Foreign Languages School of Zigong, the Zigong High School, the Meinian Campus and the Primary School Attached to Chengdu Experimental Foreign Languages School
"Primary School Attached to Chengdu Foreign Languages School" or "Primary School"	Primary School attached to Chengdu Foreign Languages School* (成都外國語學校附屬小學), a private primary school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Primary School Attached to Chengdu Experimental Foreign Languages School"	Primary School Attached to Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校附屬小學), a private primary school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Prospectus"	the prospectus of the Company dated 31 December 2015
"Registered Shareholders"	the shareholders of Sichuan Derui, namely Mr. Yan Yude, Ms. Yan Hongjia, Ms. Wang Xiaoying, Ms. Ye Jiaqi, Mr. Ye Jiayu, Ms. Yan Bixian, Ms. Yan Birong and Ms. Yan Bihui
"Reporting Period"	the year ended 31 December 2018
"RMB"	Renminbi, the lawful currency of the PRC
"School Sponsors' and Directors' Rights Entrustment Agreements"	the school sponsors' and directors' rights entrustment agreements entered into on 7 September 2015 and in 2017 by and among Sichuan Derui, Hongming Property, the Primary School and Mr. Yan Yude, Ms. Wang Xiaoying, Mr. Ye Jiayu, Mr. Jiang Chenglong, Ms. Lv Hongying and Tibet Huatai
"School Sponsors' Powers of Attorney"	the school sponsor's power of attorney entered into on 7 September 2015 and in 2017 by each of Sichuan Derui, Hongming Property and the Primary School in favor of Tibet Huatai
"SFO"	Securities and Futures Ordinance
"Share(s)"	share(s) of HK1.0 cents each in the share capital of the Company
"Shareholder(s)"	shareholder(s) of the Company

DEFINITIONS

"Share Option Scheme"	the share option scheme adopted by the Company on 28 December 2015
"Sichuan Derui"	Sichuan Derui Enterprise Development Co., Ltd.* (四川德瑞企業發展有限公司) (previously known as Sichuan Province Derui Enterprise Development Company* (四川省德瑞企業發展總公司)), a company established under the laws of the PRC, which is owned as to 69.44% by Mr. Yan Yude, 18.55% by Ms. Yan Hongjia, 3.00% by Ms. Wang Xiaoying, 2.65% by Ms. Ye Jiaqi, 1.59% by Mr. Ye Jiayu, 1.59% by Ms. Yan Bixian, 1.59% by Ms. Yan Birong and 1.59% by Ms. Yan Bihui
"Smart Ally"	Smart Ally International Limited, a Company incorporated in the BVI with limited liability on 12 May 2015 and wholly-owned by Ms. Wang Xiaoying, the spouse of Mr. Yan Yude and the step-mother of Ms. Yan Hongjia
"Southwest China"	comprises Sichuan, Guizhou and Yunnan Provinces and Chongqing Municipality
"Spouse Undertakings"	the spouse undertakings entered into on 7 September 2015 and in 2017 by each of the respective spouse of the Registered Shareholders, namely Mr. Yan Yude, Ms. Wang Xiaoying, Mr. Li Changjiu, Mr. He Qikang and Ms. Zhu Yihong
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	has the meanings ascribed to it in the Listing Rules. For the avoidance of doubt, the Subsidiaries included PRC Operating Entities in the Prospectus
"Substantial Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Structured Contracts"	collectively, the Business Cooperation Agreements, the Exclusive Technical Service and Management Consultancy Agreements, the Exclusive Call Option Agreements, the Equity Pledge Agreement, the School Sponsors' and Directors' Rights Entrustment Agreements, the School Sponsors' Powers of Attorneys, the Directors' Powers of Attorneys, the Loan Agreements and the Spouse Undertakings
"Tibet Huatai"	Tibet Huatai Education Management Consulting Co., Ltd.* (西藏華泰教育管理有限公司), a wholly-foreign owned enterprise established under the laws of PRC and a wholly-owned subsidiary of the Company
"U.S. dollar(s)" or "US$" or "USD"	United States dollars, the lawful currency of the United States of America
"Virscend Holdings"	Virscend Holdings Company Limited, a company incorporated in the British Virgin Islands with limited liability on 20 March 2015 and wholly-owned by Mr. Yan Yude, an executive Director and one of the Controlling Shareholders

DEFINITIONS

"Wah Tai"	Wah Tai (HK) Investment Limited (香港華泰投資有限公司), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"Wahtai (US)"	USA Wahtai Educational Consulting Services Inc., a company incorporated in the State of California, the United States, with limited liability and owned as to 70% by Wah Tai and 30% by Dr. Robert T. Chi, an independent third party
"Wulongshan Campus"	Wulongshan Campus of Chengdu Experimental Foreign Languages School* (成都市實驗外國語學校五龍山校區), a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 45% by Sichuan Derui, 55% by independent third parties
"Wulongshan School"	Chengdu Experimental Foreign Languages School of Xindu Wulongshan* (成都實外新都五龍山學校), a private primary and middle school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 45% by Sichuan Derui, 55% by independent third parties
"Xinhua Winshare"	Xinhua Winshare Publishing and Media Co., Ltd.* (新華文軒出版傳媒股份有限公司) (previously known as Sichuan Xinhua Winshare Chainstore Co., Ltd.* (四川新華文軒連鎖股份有限公司)), a joint stock limited company established under the laws of the PRC with limited liability whose shares are listed on the Stock Exchange (stock code: 0811)
"Zigong High School"	Chengdu Foreign Languages High School of Zigong* (自貢成外高級中學有限公司), a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is owned as to 47% by Sichuan Derui, 53% by independent third parties
"Quxian High School"	Virscend High School of Quxian*(渠縣成實外高級中學有限公司),a private high school established under the laws of the PRC and a consolidated affiliated entity of the Company, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
"Chengdu Experimental Foreign Languages School of Quxian"	Chengdu Experimental Foreign Languages School of Quxian*(渠縣成都市實驗外國語學校),a private middle school established under the laws of the PRC, where the school sponsor's interest is wholly-owned by Sichuan Derui, and a consolidated affiliated entity of the Company
%	per cent

* *For identification purpose only*