ANNUAL REPORT
2019 年報

CHINA XINHUA EDUCATION GROUP LIMITED
中國新華教育集團有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立之有限公司）
Stock Code 股份代號 : 02779

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Non-executive Director

Mr. Wu Junbao (吳俊保) *(Chairman)*

Executive Directors

Mr. Zhang Ming (張明)
Mr. Lu Zhen (陸真)
Mr. Wang Yongkai (王永凱)

Independent Non-executive Directors

Mr. Jiang Min (蔣敏) *(effective from 30 September 2019)*
Mr. Yang Zhanjun
Mr. Chau Kwok Keung (鄒國強)

AUDIT COMMITTEE

Mr. Chau Kwok Keung (鄒國強) *(Chairman)*
Mr. Wu Junbao (吳俊保)
Mr. Jiang Min (蔣敏) *(effective from 30 September 2019)*

REMUNERATION COMMITTEE

Mr. Jiang Min (蔣敏) *(Chairman)*
(effective from 30 September 2019)
Mr. Wu Junbao (吳俊保)
Mr. Yang Zhanjun

NOMINATION COMMITTEE

Mr. Wu Junbao (吳俊保) *(Chairman)*
Mr. Jiang Min (蔣敏) *(effective from 30 September 2019)*
Mr. Yang Zhanjun

COMPANY SECRETARY

Mr. Wong Yu Kit (黃儒傑)

AUTHORISED REPRESENTATIVES

Mr. Wang Yongkai (王永凱)
Mr. Wong Yu Kit (黃儒傑)

COMPLIANCE ADVISOR

Guotai Junan Capital Limited

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 555 Wangjiangxi Road
Heifei City, Anhui Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISORS AS TO HONG KONG LAW

Luk & Partners
In Association with
Morgan, Lewis & Bockius

AUDITORS

KPMG
Public Interest Entity Auditor registered in accordance with
the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

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

PRINCIPAL BANKERS

Agricultural Bank of China
Hefei Science and Technology Rural Commercial Bank
Huishang Bank
Hangzhou Bank
Industrial and Commercial Bank

COMPANY WEBSITE

http://www.chinaxhedu.com

STOCK CODE

02779

FIVE-YEAR COMPARISON OF KEY FINANCIAL FIGURES

Results of operation

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**437,732**	386,127	337,958	303,262	281,646
Gross profit	**261,221**	230,402	192,477	179,230	157,795
Profit before taxation	**273,757**	257,992	174,041	174,982	151,019
Profit for the year	**270,673**	256,010	171,958	172,548	149,971

Assets and liabilities

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	**1,873,962**	1,935,216	541,038	468,150	403,723
Current liabilities	**675,410**	318,767	326,170	268,628	348,582
Net current assets	**1,198,552**	1,616,449	214,868	199,522	55,141
Total non-current assets	**1,419,728**	768,085	785,560	567,470	539,777
Total equity	**2,618,280**	2,384,534	999,925	766,614	594,662

Financial ratio

	As at/for the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net profit margin (%)	**61.8%**	66.3%	50.9%	56.9%	53.2%
Current ratio	**2.8**	6.1	1.7	1.7	1.2
Return on equity	**10.8%**	15.1%	19.5%	25.4%	28.9%
Return on assets	**9.0%**	12.7%	14.6%	17.4%	16.2%

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of China Xinhua Education Group Limited, I am pleased to present the annual results of the Group for the year ended 31 December 2019.

OVERVIEW OF THE GROUP

The Group is a leading private higher education group in China. We are the largest private higher education provider in the Yangtze River Delta, as measured by the number of full-time student enrollment of the higher education programs. As at 31 December 2019, the Group invested in and operated four educational institutions, namely, (i) Xinhua University, a private formal university; (ii) Xinhua School, a private secondary vocational school; (iii) School of Clinical Medicine, a university jointly operated by the Group and Anhui Medical University* (安徽醫科大學); and (iv) Hongshan College, a college jointly operated by the Group and Nanjing University of Finance and Economics.

The educational mission of the Group is "to serve our country through education" (興教報國). We are committed to providing applied science education to students and seeks to cultivate high quality talents with applicable skills, potential for future development and an ability and willingness to keep learning. The Group achieved fruitful results in 2019, achieved breakthroughs in outward expansion, continued to expand the size of its students, and achieved steady development in all major operating indicators.

REVIEW OF RESULTS

The total students enrolled in the schools we operated increased from 34,756 as at 31 December 2018 to 45,244 as at 31 December 2019. The revenue of the Group has increased from RMB386.1 million for the year ended 31 December 2018 to RMB437.7 million for the year ended 31 December 2019, while the profit for the year increased from RMB256.0 million for the year ended 31 December 2018 to RMB270.7 million for the year ended 31 December 2019.

FUTURE PROSPECTS

Looking into the future, the Group will, based on its high-quality resources and rich experience accumulated in the education industry and its position to cultivate high-end application-oriented talents, tap the market potential and opportunities in the higher education industry in China, strengthen the integration of industry and education and school-enterprise cooperation, and further expand its school network and student enrollment through the acquisition of high-quality undergraduate and vocational (junior college) schools. At the same time, the Group will continue to upgrade the management of its existing educational institutions and provide the students with quality services and educational support to enhance their competitiveness in the labour market.

On behalf of the Board of Directors, I would like to take this opportunity to express my gratitude to our students, their parents, all shareholders and staff who have always supported the development of our Group. Our staff will continue to pursue excellence and progress, insist on carrying out the educational mission of "to serve our country through education", foster high-quality talents and create greater value for shareholders with more excellent results.

Wu Junbao
Chairman

25 March 2020

BUSINESS OVERVIEW

The Group is a leading private higher education group in China. We are the largest private higher education provider in the Yangtze River Delta, as measured by the total student enrollment. As at 31 December 2019, the student enrollment of the Group was 45,244, representing an increase of 30.2% as compared with 31 December 2018.

We are committed to providing high-quality application-oriented formal education services to our students, including formal university education and secondary vocational education covering various popular subjects and areas of employment. Through continuous and efficient market research, we actively design comprehensive and diversified courses to meet employers' preferences and employment market demands. Meanwhile, we actively adjust our major offerings, continuously optimize our teaching conditions by improving our tangible and intangible infrastructure, optimize the educational environment, and strengthen strategic cooperation with various private enterprises and public institutions, in order to help our students acquire useful skills and seek good employment opportunities. As a whole, our graduate employment rate is higher than the average graduate employment rate in the regions where we operate. The high employment quality will further consolidate our reputation, improve our image in the industry, and enable our schools to attract more talented students. With professional and high-quality education, the Group has continuously made outstanding contributions for students and their families, employers and economic and social development.

BUSINESS REVIEW

Our Schools

As at 31 December 2019, the Group invested in and operated four education institutions, namely (i) Xinhua University, a private university for formal education; (ii) Xinhua School, a private secondary vocational school; (iii) School of Clinical Medicine, a college jointly operated by the Group and Anhui Medical University* (安徽醫科大學); and (iv) Hongshan College, a college jointly operated by the Group and Nanjing University of Finance and Economics.

Xinhua University

Founded in 2000, Xinhua University is a formal university-level education institution, which provides undergraduate education, junior college education and continuing education focusing on applied sciences. As at 31 December 2019, Xinhua University had 11 subordinate colleges, offering a total of 82 majors for full-time higher education, including 60 undergraduate majors and 22 junior college majors. In addition, Xinhua University also provides the continuing education program to its students. As at 31 December 2019, approximately 28,856 students enrolled in Xinhua University. Xinhua University ranks the first among the private formal higher education institutions in the Yangtze River Delta, as measured by the student enrollment.

Xinhua School

As a secondary vocational school, Xinhua School provides general secondary vocational program, undergraduate oriented secondary vocational education program, and five-year junior college oriented secondary vocational education program. All students of Xinhua School take full-time courses. As at 31 December 2019, Xinhua School offered 16 majors, with 5,583 full-time students. During the 2019/2020 school year, 2,244 new students were enrolled, representing a year-on-year increase of 9.6%. The number of newly enrolled students reached a new high, and the CAGR of which was 25.7% over the last two years. The enrollment for the five-year program, the top-up degree program and the key programs for which cooperation with well-known enterprises was carried out accounted for over 82% of total enrollment.

School of Clinical Medicine

Pursuant to the agreement with Anhui Medical University* (安徽醫科大學), we are entitled to the tuition fees relating to those students admitted in School of Clinical Medicine in the 2018/2019 school year and thereafter and are responsible for the operations of the new campus. Since students have had a strong will to apply for admission to the school over two years of running, its lowest admission mark for science was the highest among schools of the same type in Anhui Province, and its yield hit a new high for two consecutive years and was the highest among schools of the same type in Anhui Province. In order to meet the demand of medical students at junior colleges for a top-up degree program, with the approval of the Anhui Education Department, the School of Clinical Medicine newly acquired the qualification to enroll students for top-up degree programs, with its application rate, enrollment rate and yield being the highest among schools of the same type. Its conversion has been included in the "13th Five-Year" plan of the Anhui Education Department and reported to the Ministry of Education.

In order to meet the increasing demand of students and speed up the conversion, the School of Clinical Medicine has entered into an agreement with Hefei Natural Resources and Planning Bureau* (合肥市自然資源和規劃局) to purchase 227.29 mu of land for the new campus, which is located in the core area of Hefei Binhu Science City, with obvious regional advantages. This allows the effective utilization of rich and excellent scientific, educational and medical resources in Hefei, and creates an outstanding synergy with Hefei and colleges and universities of the Group in Hefei. Construction of the new campus has begun, and phase I project for the new campus is expected to be put into operation before 1 September 2021.

Acquisitions during the Reporting Period

Hongshan College

On 29 April 2019, Xinhua Group entered into an agreement with Nanjing University of Finance and Economics and the Foundation, pursuant to which Xinhua Group has officially become the new school sponsor of Hongshan College and cooperates with Nanjing University of Finance and Economics to jointly operate Hongshan College. Details of the agreement have been set out in the Company's announcement dated 29 April 2019.

Hongshan College is an independent college approved by the Ministry of Education to train full-time undergraduate students. It offers 15 undergraduate majors, while its major offerings focus on economic management, with literature and law characteristics. On 6 July 2019, Hongshan College entered into an agreement with the People's Government of Gaochun District, Nanjing City to acquire approximately 950 mu of land for the construction of the new campus, so as to support Hongshan College in completing the conversion as soon as possible in the future. As at 31 December 2019, the overall design plan of the new campus of Hongshan College and the survey and other work related to the construction project were completed and the construction work is expected to begin no later than 30 June 2020.

Haiyuan College and Kunming Health School

On 12 July 2019 and 22 November 2019, Xinhua Group entered into agreements to acquire 60% of school sponsor's interest in Haiyuan College and Kunming Health School at a total consideration of RMB918 million, details of the progress have been set out in the Company's announcements dated 15 July 2019 and 22 November 2019.

Student Enrollment

	As at 31 December 2019	As at 31 December 2018
Xinhua University		
Full-time student enrollment	23,442	22,881
Continuing education	5,414	6,030
Subtotal	28,856	28,911
Xinhua School		
Full-time student enrollment	5,583	5,270
School of Clinical Medicine		
Full-time student enrollment	1,751	575
Hongshan College[(1)]		
Full-time student enrollment	9,054	–
Total	45,244	34,756

(1) Hongshan College is a newly acquired school in 2019

Tuition and boarding fees

	Tuition fees (RMB)		Boarding fees (RMB)	
	2019/2020 school year	2018/2019 school year	**2019/2020 school year**	2018/2019 school year
Xinhua University				
Four-year undergraduate program	**19,800-23,800**	16,500-25,000	**1,500-2,000**	1,500-2,000
Three-year junior college program	**10,700-12,000**	10,700-21,000	**1,500-2,000**	1,500-2,000
Continuing education program	**2,400-11,900**	2,400-9,900	**1,500-2,000**	1,500-2,000
Xinhua School				
General secondary vocational program	**9,000-11,400**	5,200-10,400	**1,500**	1,500
Undergraduate-oriented secondary vocational program	**11,400**	10,400	**1,500**	1,500
Five-year secondary vocational program	**11,400**	10,400	**1,500**	1,500
School of Clinical Medicine				
Four-year undergraduate program	**13,200-15,900**	13,200-15,900	**1,000**	1,000
Five-year undergraduate program	**15,900**	15,900	**1,000**	1,000
Hongshan College(1)				
Four-year undergraduate program	**14,000**	N/A	**800-1,500**	N/A

(1) Hongshan College is a newly acquired school in 2019

HONORS

The Group is committed to improving the quality of running schools and encourages students to take part in various kinds of competitions. It has obtained many outstanding achievements, with a total of more than 1,000 provincial and national awards and honors.

Some honors include: Xinhua University won the title of 2019 Private Colleges and Universities with Comprehensive Strength; the ice hockey team of Xinhua University won the Professional Team Championship of Chinese University Hockey League; Xinhua School was recognized as one of the first model schools for school-enterprise cooperation in Hefei; and won the title of Hefei Safe Campus, etc.

BUSINESS AND OPERATION UPDATES

1. **Breakthrough in outward mergers and acquisitions.** The Group adheres to the merger and acquisition strategy of sustainable development, and has completed mergers and acquisitions, in a high-quality manner and at a high standard. During the Reporting Period, the Group acquired Hongshan College, formally becoming the new school sponsor of Hongshan College. The Group and Nanjing University of Finance and Economics jointly operate Hongshan College.

2. **Continuous increase in the number of new enrollment and enrolled students.** The number of full-time students enrolled of the Group during the 2019/2020 school year was 12,493, representing an increase of 41.1% as compared with 2018. Without considering the effect of new acquisition of Hongshan College in 2019, the number of full-time students newly enrolled by the original schools of the Group was 10,202, representing an increase of 15.3% as compared with 2018. As at 31 December 2019, the total student enrollment of the Group reached 45,244, representing an increase of 30.2% as compared with 2018.

3. **Continuous enrichment and refinement of major construction.** In consideration of market demands and enterprise needs, the Group actively develops majors which are urgently needed in industrial development, and continuously optimizes the major structure and subject setting. As at 31 December 2019, the Group offered a total of 14 additional undergraduate and junior college majors. Xinhua University was approved to offer three undergraduate majors, namely pre-school education, big data management and application, and robot engineering; and six junior college majors, including electronic competitive sports and management, and flight attendant. Xinhua School was approved to offer major in unmanned aerial vehicle application, and offered Sino-ROK e-commerce course and the international class on computer application for the first time. The School of Clinical Medicine offered two additional undergraduate majors, namely medical imaging technology and rehabilitation.

4. **Outstanding achievements in connotation construction and continuous improvement in school-running quality.** In November 2019, Xinhua University was approved to become an "Organization with the Master's Degree Conferring Qualification Pending Approval". During the three-year construction period, Xinhua University can jointly train postgraduates with relevant universities. Xinhua University can independently recruit graduate students if it passes the acceptance when the construction period expires. Xinhua University is upgrading from the undergraduate level to the postgraduate level, and gradually offer relevant courses and commence enrollment. The upgrade will help further increase its social influence, and develop more education service types. The Group actively promotes school-local government cooperation and school-enterprise cooperation projects and actively develops a long-term government-school-enterprise cooperation mechanism. Xinhua University signed a strategic school-local-government cooperation agreement with the Management Committee of Hefei National High-tech Industrial Development Zone* (合肥市國家級高新區管委會), and cooperated with YONYOU SEENTAO* (用友新道科技公司) in establishing the "YONYOU SEENTAO Cloud Finance Industry College* (用友新道雲財務產業學院)", which offered "Financial Management (YONYOU SEENTAO Excellence Curriculum)* (財務管理(用友新道卓越班))", a major under school-enterprise cooperation, for the first time. The School of Clinical Medicine successfully signed contracts with two affiliated hospitals.

5. **Excellent results in subject competitions.** Promoting the teaching reform through competition is an effective measure to improve the comprehensive competitiveness of students. As at 31 December 2019, teachers and students of the Group won a total of over 1,000 awards in various competitions, thus continuously improving the brand influence of the Group.

6. **The Company has been included in the MSCI Index.** The Company has been included in the MSCI China All Shares Small Cap Index, one of the benchmark indexes commonly used as stock selection criteria for investment among global investors, since the close of market on 26 November 2019.

7. **Entering into strategic cooperation agreement with the Industrial and Commercial Bank of China Hefei Branch ("ICBC").** ICBC agreed to provide intentional credit support of not less than RMB5 billion cumulatively in the next five years under the premise of in compliance with relevant regulations and the internal credit approval system.

FUTURE PROSPECTS

New Development Opportunities for Private Colleges and Universities arising out of the Gradual Implementation of Favourable Policy

The Group has always been aiming to cultivate high-quality application-oriented talents with solid academic ability, innovative spirit, international vision and development potential. We noted that there have been positive changes in the management philosophy of the competent education authorities at all levels in respect of private colleges and universities since the implementation of the revised Law for Promoting Private Education published in 2018, such as the implementation of a filing system for tuition fee adjustment and the encouragement for the conversion of independent colleges. We believe that the implementation of the above policies and other related measures will help advantageous higher education groups expand their school size and improve their school quality through independent teaching and scientific research innovation as well as software and hardware construction, and effectively give full play to the advantages and features of private higher education.

In 2019, there were favorable policies and information, including the strategic plan of China Education Modernization 2035 issued by the State Council, the National Vocational Education Reform Implementation Plan, "Enrollment of 1 Million Students for Vocational Education" and all-around revitalization of undergraduate education. Subsequently, the competent departments at all levels published a number of policies to support colleges and universities in further increasing the enrollment, and encourage the healthy development of vocational education. In terms of implementation, measures including social enrollment of colleges and universities, the construction of "high-level higher vocational" schools and the "1+X" teaching service of colleges and universities have been actively planned and advanced, and have achieved good results. Recently, the State Council and the Ministry of Education issued documents to further increase the enrollment for top-up degree programs and master degree programs, thus bringing new opportunities for universities to expand their size.

The Group will, based on its high-quality resources and rich experience in the education industry and its position to cultivate high-end application-oriented talents, seize the policy opportunities, strengthen the integration of industry and education and school-enterprise cooperation, and further expand its school network and student enrollment by acquiring high-quality schools.

1 **Seizing opportunities arising from policies to comprehensively expand the school network and the size of schools of the Group**

The data in the Statistical Bulletin on National Education Development 2018 show that, at present, there are 750 private higher colleges and universities across China, including 265 independent colleges, and thus there is huge room for integration. The state has promoted the conversion of independent colleges. Based on the principle of "conversion as many as possible and as soon as possible", high-quality private higher education institutions have many advantages in merger and acquisition of independent colleges and promotion of conversion, and may take the opportunity to expand their school size. In addition, since higher education in China is being popularized and the development of private colleges and universities varies, advantageous higher education institutions have more market opportunities to invest in, merge and acquire relevant colleges and universities. We believe that the policy changes will continue to bring more opportunities of merger and acquisition for the market, enabling high-quality private colleges and universities to expand their school network through investment, merger and acquisition, thus realizing cross-regional arrangements.

Our mergers and acquisitions will focus on the following two aspects: (1) long-term investment opportunities arising from the conversion of high-quality independent colleges; and (2) high-quality private colleges and universities located in regions highly attractive for talents or with a low gross enrollment rate in higher education. We believe that with its rich experience in running schools, abundant capital reserves and excellent brand reputation, Xinhua Group will be able to acquire higher-quality targets in future investments, mergers and acquisitions, and carry out the implementation through the best acquisition scheme, so that there will be a continuous and rapid growth in the sizes of schools of the Group and its profitability.

2 **Strengthening the connotation construction, and striving to enhance the brand effect and profitability of the Group**
The Group will continue to make efforts to build a leading applied and highly educated personnel training system and major offerings in China, and continuously optimize the major structure and subject setting to encourage students to actively participate in various professional training and practical activities during their study. Under national policies advocating the integration of production and education, promoting the enrollment expansion for higher education and the construction of application-oriented undergraduate colleges and otherwise, we will continuously strengthen major setting, campus construction and school-enterprise cooperation, so as to provide students with the best learning environment and high-quality professional courses, thus enabling students to obtain better job opportunities after graduation. Meanwhile, the improvement in the teaching and employment quality will help our colleges and universities attract more excellent candidates, and continuously improve the enrollment number and the average tuition fee level of our colleges and universities.

3 **Extending medical majors and comprehensively integrating resources of high-quality colleges and universities**
Data of the National Bureau of Statistics show that in 2018, the number of registered physicians per one thousand population in China was only 2.59 persons, which was much less than that in developed countries in Europe and America. With the changes in China's population structure and the trend of population aging and people's increasing attention to health and quality of life, we believe that the social demand for medical treatment and health services will continuously increase in the future. We have also noticed that with the outbreak of "novel coronavirus pneumonia" in the world, countries are bound to increase their investment in public facilities including education, health and culture. China is continuously strengthening the talent training in public health and medical treatment as well as basic scientific research. The remuneration for medical talents will also be greatly improved in the future. There will be unprecedented opportunities for the coordinated development of medical talent training and medical education. Our investment in the School of Clinical Medicine and the selection of medical education strategies highly conform to this trend and demand.

RESULTS OF OPERATIONS

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations.

	Year ended 31 December	
	2019	2018
	(RMB'000)	(RMB'000)
Revenue	**437,732**	386,127
Cost of sales	**(176,511)**	(155,725)
Gross profit	**261,221**	230,402
Other income	**115,436**	91,758
Selling and distribution costs	**(7,843)**	(6,196)
Administrative expenses	**(94,212)**	(57,887)
Profit from operations	**274,602**	258,077
Finance costs	**(845)**	(85)
Profit before taxation	**273,757**	257,992
Income tax	**(3,084)**	(1,982)
Profit for the year	**270,673**	256,010
Adjusted net profit(1)	**296,002**	258,737

(1) The Group defines the adjusted net profit as the profit for the year after adjusting for those items which are not indicative of the Group's operating performances. This is not an IFRS measure. For details, please refer to the section headed "Management Discussion and Analysis".

Revenue

Revenue consists of the tuition fees and boarding fees the Group received from its students.

The Group's revenue increased by 13.4% from RMB386.1 million for the year ended 31 December 2018 to RMB437.7 million for the year ended 31 December 2019. This increase was primarily due to the increase in tuition fees from RMB341.5 million for the year ended 31 December 2018 to RMB391.9 million for the year ended 31 December 2019, representing a year-on-year increase of 14.8%. This is primarily attributed to the increase in the Group's student enrollment and average tuition fees.

Other Income

Other income primarily consists of rental and property management income, service income and interest income.

Other income increased by 25.7% from RMB91.8 million for the year ended 31 December 2018 to RMB115.4 million for the year ended 31 December 2019, primarily due to (1) an increase in rental and property management income provided to other independent third parties as a result of the continuous increase in the utilization of our campus, and (2) an increase in the income from operation of Hongshan College.

Cost of Sales

Cost of sales primarily consists of salaries and benefits paid to our teaching staff, depreciation and amortization, cost of education-related activities, cost of repairs and student-related costs.

Our cost of sales increased by 13.4% from RMB155.7 million for the year ended 31 December 2018 to RMB176.5 million for the year ended 31 December 2019, mainly due to the increase in salaries and benefits paid to our staff as a result of the introduction of high-level talents by the Group to improve the quality of school running.

Gross Profit

Our gross profit increased by 13.4% from RMB230.4 million for the year ended 31 December 2018 to RMB261.2 million for the year ended 31 December 2019, which was in line with the growth of our revenue.

Selling and Distribution Costs

Selling and distribution costs primarily consist of student admission expenses, salaries and benefits paid to our sales staff, depreciation and amortization, and advertising expenses.

Selling and distribution costs increased by 25.8% from RMB6.2 million for the year ended 31 December 2018 to RMB7.8 million for the year ended 31 December 2019, primarily due to an increase in necessary promotion expenses.

Administrative Expenses

Administrative expenses primarily consist of salaries and benefits paid to administrative staff, depreciation and amortization, and consultancy expenses.

Administrative expenses increased by 62.7% from RMB57.9 million for the year ended 31 December 2018 to RMB94.2 million for the year ended 31 December 2019, mainly due to (1) an increase in salaries as a result of the employment of high-level talents and (2) an increase in relevant expenses as a result of acquisition activities of the Group.

Finance Costs

Finance costs primarily consist of interest expenses on bank loans.

The finance costs incurred for the year ended 31 December 2019 amounted to approximately RMB0.8 million (31 December 2018: RMB0.1 million), mainly due to the increase in the interest expenses on bank loans.

Profit before Taxation

The Group's profit before income tax recognized for the year ended 31 December 2019 was RMB273.8 million, as compared with RMB258.0 million for the year ended 31 December 2018, representing a year-on-year increase of 6.1% which is a combined result of increase in revenue and other income and increase in administrative expenses.

Income Tax

The Group's income tax increased by 55.0% from RMB2.0 million for the year ended 31 December 2018 to RMB3.1 million for the year ended 31 December 2019, which is in line with the growth of the Group's taxable income.

Profit for the Year

As a result of the combined effects of the above income, costs and expenses, the Group recorded a profit of RMB270.7 million for the year ended 31 December 2019, representing an increase of 5.7% as compared with RMB256.0 million for the year ended 31 December 2018.

Adjusted Net Profit

Adjusted net profit was derived from the profit for the year after adjusting the foreign exchange gain or loss and the share-based payment expenses, which are not indicative of the Group's operating performances (as presented in the table below). This is not an IFRSs measure. The Group has presented this item because the Group considers it is 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 shows profit and adjusted net profit of the Group for the years presented below:

	2019	2018
	RMB'000	RMB'000
Profit for the year	**270,673**	256,010
Add:		
Foreign exchange loss	**8,649**	2,727
Share-based payment expenses	**16,680**	–
	296,002	258,737

FINANCIAL AND LIQUIDITY POSITION

Current Assets and Current Liabilities

The following table sets forth details of our current assets and current liabilities as at the dates indicated:

	As at 31 December	
	2019	2018
	(RMB'000)	(RMB'000)
CURRENT ASSETS		
Trade receivables	**2,768**	261
Prepayments, deposits and other receivables	**488,198**	13,042
Financial assets measured at fair value through profit or loss	**–**	60,242
Cash and cash equivalents	**1,382,996**	1,861,671
TOTAL CURRENT ASSETS	**1,873,962**	1,935,216
CURRENT LIABILITIES		
Loans and borrowings	**330,000**	–
Contract liabilities	**239,480**	212,810
Other payables	**102,058**	101,018
Deferred income	**–**	1,510
Current taxation	**3,872**	3,429
TOTAL CURRENT LIABILITIES	**675,410**	318,767
NET CURRENT ASSETS	**1,198,552**	1,616,449

Net Current Assets

As at 31 December 2019, the Group recorded net current assets of RMB1,198.6 million (31 December 2018: RMB1,616.4 million), which was primarily attributable to capital investment by the Group in the newly acquired schools.

Trade Receivables

Our trade receivables as at 31 December 2019 were RMB2.8 million. The following table sets forth the aging analysis of our trade receivables based on the transaction date as at the dates indicated:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Within 1 year	**2,768**	261
More than 1 year but less than 2 years	**–**	–
	2,768	261

Trade receivables increased from RMB0.3 million as at 31 December 2018 to RMB2.8 million as at 31 December 2019, primarily attributable to delayed payment of tuition fees related to enrolled students in Higher Vocational College Expansion Project with the amount of RMB2.6 million.

Prepayments, Deposits and Other Receivables

Prepayments, deposits and other receivables mainly represented (i) the amounts due from third parties; and (ii) reimbursable advances to employees for business travel, training, procurement, student recruitment campaigns and other expenses to be incurred in the ordinary course of our business. Advances to employees were unsecured, interest-free and repayable on demand. All of the prepayments are expected to be settled or recognized as profit or loss within one year. The following table sets forth our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Prepayments and deposits	**207,723**	5,289
Other receivables	**280,475**	7,753
	488,198	13,042

As at 31 December 2019, our prepayment and deposits mainly comprise the balance due from Hongshan College with the amount of RMB200.0 million, and other receivable mainly comprise the balance due from the School of Clinical Medicine with the amount of RMB222.4 million.

Contract Liabilities

Our contract liabilities consists of tuition fees and boarding fees we typically collect from our students prior to the commencement of the upcoming school year or semester. It represents the tuition and boarding payments received from students but not earned. Our students are entitled, however, to a refund of a portion of their tuition and boarding payments pursuant to our refund policy if they withdraw from our schools. The following table sets forth the balance of our contract liabilities as at the dates indicated:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Tuition fees	211,289	183,839
Boarding fees	28,191	28,971
	239,480	212,810

Contract liabilities increased by 12.5% from RMB212.8 million in 2018 to RMB239.5 million in 2019, primarily attributable to increased tuition fees and boarding fees we received for the 2019-2020 school year.

Other Payables

Our other payables primarily consist of (i) miscellaneous expenses received from students which will be paid out on behalf of students; (ii) accrued expenses; (iii) payables to suppliers primarily in connection with purchases of property, plant and equipment; (iv) accrued staff costs; and (v) others. The following table sets forth our other payables as at the dates indicated:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Miscellaneous expenses received from students	27,318	27,467
Accrued expenses	8,279	7,203
Payable to suppliers	19,716	28,599
Accrued staff costs	21,949	16,542
Accrued listing expenses	196	–
Others	24,600	21,207
Total	102,058	101,018

Our other payables remained stable as at 31 December 2019.

Working Capital and Source of Capital

As at 31 December 2019, the Group had cash and cash equivalents of RMB1,383.0 million (31 December 2018: RMB1,861.7 million), the fund of the Group was mainly arising from net cash inflow generated from operating activities and bank loans.

CAPITAL EXPENDITURES

The Group's capital expenditures were primarily related to the maintenance, renovation and construction of the existing school premises and the new campus of the School of Clinical Medicine and Hongshan College. During the year ended 31 December 2019, the Group's capital expenditures were RMB309.1 million (for the year ended 31 December 2018: RMB44.5 million).

CAPITAL COMMITMENTS

The Group's capital commitments primarily relate to the acquisition of property, plant and equipment and land use rights. The following table sets forth a summary of our capital commitments as at the dates indicated:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000
Authorized but not contracted for	**966,090**	615,212

INDEBTEDNESS AND CONTINGENT LIABILITIES

Bank Loans and Other Borrowings

Bank loans and other borrowings of the Group were mainly short-term working capital loans. The bank loans of the Group amounted to RMB330 million as at 31 December 2019.

Contingent Liabilities and Guarantees

As at 31 December 2019, the Group did not have any unrecorded significant contingent liabilities, guarantees or any litigation against it.

KEY FINANCIAL RATIOS

	As at/for the year ended 31 December 2019	2018
Current ratio[(1)]	**2.8**	6.1
Return on equity[(2)]	**10.8%**	15.1%
Return on assets[(3)]	**9.0%**	12.7%

Notes:

(1) Current ratio was calculated based on our total current assets divided by our total current liabilities as at the end of the year.

(2) Return on equity equals profit for the year divided by average total equity amounts as at the end of the year.

(3) Return on assets equals profit for the year divided by average total assets as at the end of the year.

Current Ratio

Our current ratio decreased from 6.1 as at 31 December 2018 to 2.8 as at 31 December 2019, primarily because of the increase of current liabilities due to new bank loans of the Group.

Return on Assets and Return on Equity

Our return on assets ratio was 9.0% as at 31 December 2019, and return on equity ratio was 10.8% as at 31 December 2019. Both of the return ratios as at 31 December 2019 were lower than the return ratios as at 31 December 2018 primarily due to the increases in our average total assets and average total equity.

Gearing Ratio

Gearing ratio equals total liabilities divided by total assets as at the end of the year. Our gearing ratio increased from 12% as at 31 December 2018 to 21% as at 31 December 2019, primarily because of the increase of liabilities due to new bank loans of the Group.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at 31 December 2019, the Group has not entered into any off-balance sheet transaction.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed herein, there was no material acquisition and disposal of subsidiaries and associated companies by the Company during the year ended 31 December 2019.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP

Save as disclosed herein, there was no significant investment held by the Group for the year ended 31 December 2019.

FUTURE PLAN FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed herein, the Group did not have other plans for material investments and capital assets as at 31 December 2019.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group's functional currency is RMB, as most revenues and expenditures are denominated in RMB. As at 31 December 2019, balances of several banks were denominated in USD or HKD. The management will continue paying attention to foreign exchange risk, and will consider hedging against significant foreign currency risks by using financial instruments when necessary.

PLEDGE OF ASSETS

As at 31 December 2019, no assets of the Group were pledged.

HUMAN RESOURCES

As at 31 December 2019, the Group has approximately 1,621 employees. In accordance with the applicable laws and regulations, the Group has attended the employee social security programs managed by local governments, including housing, retirement pension, medical insurance, maternity insurance and unemployment insurance. The Board believes that the Group is maintaining a favorable working relationship with our employees, and we have experienced no major labor disputes during the Reporting Period.

EVENTS AFTER THE REPORTING PERIOD

At the beginning of 2020, since the outbreak of the novel coronavirus (COVID-19) epidemic in China, the Chinese government has taken various emergency measures to prevent the spread of the epidemic, including delaying the starting dates of various types of schools. Based on the requirements of relevant competent authorities, the Group has formulated a response work plan scientifically, launched online education platforms, and actively taken various infection control actions. The Group will closely monitor the development of COVID-19, assess its impact on the Group's financial position and operating performance, and closely monitor the Group's exposure to relevant risks and uncertainties.

Save as disclosed above, the Board is not aware of any significant event requiring disclosure subsequent to 31 December 2019 and up to the date of this report.

REGULATORY UPDATE

On 10 August 2018, the Ministry of Justice of the PRC announced the Implementation Rules for the Law for Promoting Private Education (Draft Amendment for Review)* (中華人民共和國民辦教育促進法實施條例(修訂草案)(送審稿)) (the "Draft Amendments") for comment. As advised by our PRC Legal Advisers, the Draft Amendments have not been published or implemented in China. As at the date of this report, the Draft Amendments do not have any impact on the operation of the Group. The Company will continue to pay attention to the update on the Draft Amendments and relevant laws and regulations.

In addition, on 15 March 2019, the National People's Congress of the PRC has passed and promulgated the Law of the People's Republic of China on Foreign Investment* (《中華人民共和國外商投資法》) (the "Foreign Investment Law"), which has been effective and implemented on 1 January 2020. The Foreign Investment Law defines foreign investment as investment activities directly or indirectly carried out by foreign investors in the PRC, and has listed the examples of such foreign investments. Meanwhile, the Foreign Investment Law stipulates that the state implements the management scheme of pre-establishment national treatment along with a negative list (the "Negative List") with respect to foreign investment. For any field with investment restricted by the Negative List for foreign investment, foreign investors shall meet the investment conditions stipulated under the Negative List; any field that does not fall within the Negative List shall be administered under the principle of consistency between domestic and foreign investment. The Foreign Investment Law did not explicitly mention "actual control" and "contractual arrangement". Nevertheless, further laws and regulations may have provisions in this regard. Therefore, there are still uncertainties about whether the structure under the contractual arrangement will be subject to foreign investment supervision in the future, and if so, the supervision methods. As at the date of this annual report, the operation of the Company is not affected by the Foreign Investment Law. The Company will pay close attention to the update on the Foreign Investment Law and relevant laws and regulations.

The Company will continue to pay attention to the update on the Draft Amendments, the Foreign Investment Law and relevant laws and regulations. The Company will make further announcements in this regard as and when appropriate in accordance with the Listing Rules.

BOARD OF DIRECTORS

Chairman and non-executive Director

Mr. Wu Junbao (吳俊保), aged 54, the founder of the Group, was appointed as the chairman and a non-executive Director of the Company on 27 October 2017.

Mr. Wu has more than 20 years of experience in education. The following table shows the key working experience of Mr. Wu:

Period	Company	Position
September 1999 to September 2017	Xinhua Group	General manager
September 1999 to present	Xinhua Group	Chairman and director
June 2000 to present	Xinhua University	Chairman and director
November 2018 to present	China East Education Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 667)	Non-executive director

Mr. Wu obtained the qualification as a senior economist granted by the Personnel Bureau of Hefei City* (合肥市人事局) in July 2004. He graduated from Anhui Institute of Business Administration* (安徽工商管理學院) in Hefei City, Anhui Province, the PRC with a degree of master of business administration in December 2003.

Executive Directors

Mr. Zhang Ming (張明), aged 42, joined the Group in April 2018 and was appointed as an executive Director on 31 October 2018.

Mr. Zhang has more than 19 years of experience in education management. The following table shows the key working experience of Mr. Zhang:

Period	Company	Position
July 2000 to May 2010	Anhui Xinhua Group Investment Co., Ltd.	Executive deputy principal/principals of the Xinhua computer schools in Jiangxi, Henan and Anhui
May 2010 to April 2018	Xinhua Education Group	Vice president/executive vice president/president
April 2018 to present	Xinhua Group	President

Mr. Zhang graduated from Anhui College of Mechanical and Electrical Engineering* (安徽機電學院, currently known as Anhui Polytechnic University* (安徽工程大學)) in July 2000 with a bachelor's degree in textile engineering, and from University of Science and Technology of China* (中國科學技術大學) in July 2011 with an executive master of business administration.

Mr. Lu Zhen (陸真), aged 44, joined the Group in October 2014 and was appointed as an executive Director of the Company on 27 October 2017.

Mr. Lu has more than 10 years of experience in education. The following table shows the key working experience of Mr. Lu:

Period	Company	Position
July 1999 to February 2005	Hefei Meiling Co., Ltd.* (合肥美菱股份有限公司)	Business manager
February 2005 to February 2009	Hefei Meiling Home Appliances Industrial and Trading Company Limited* (合肥美菱家電工貿有限公司)	General manager for Anhui division
August 2009 to November 2011 and December 2013 to October 2014	Xinhua Education Group	Deputy head/marketing operation manager/general manager of computer business department
November 2011 to November 2013	Shandong Xinhua Computer College* (山東新華電腦學院)	Deputy principal/principal
October 2014 to present	Xinhua University	Deputy principal/executive director/ executive deputy principal
March 2015 to present	Xinhua Group	Assistant to the president/director/vice president/executive vice president
November 2018 to present	China East Education Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 667)	Non-executive director

Mr. Lu graduated from Zhengzhou Institute of Textile Industry* (鄭州紡織工學院, currently known as Zhongyuan University of Technology (中原工學院)) in Zhengzhou City, Henan Province, the PRC with a bachelor degree majoring in mechanical engineering in July 1999 and graduated from Nanjing University (南京大學) in Nanjing City, Jiangsu Province, the PRC with a degree of master of business administration in March 2009.

Mr. Wang Yongkai (王永凱), aged 62, joined the Group in March 2003 and was appointed as an executive Director of the Company on 27 October 2017.

Mr. Wang has more than 17 years of experience in education and financial matters. The following table shows the key working experience of Mr. Wang:

Period	Company	Position
March 2003 to present	Xinhua Group	Chief financial officer/deputy general manager/director/executive president
December 2004 to present	Xinhua University	Director

Mr. Wang obtained the qualification as a senior economist granted by the Personnel Bureau of Hefei City in December 2008. He graduated from Hefei Rural Economic Management Cadre College* (合肥農村經濟管理幹部學院, currently known as Anhui Economic Management Cadre College* (安徽經濟管理幹部學院)) in Hefei City, Anhui Province, the PRC majoring in financial accounting and statistics in July 1989 and graduated from China Europe International Business School* (中歐國際工商學院) in Shanghai, the PRC with a degree of master of business administration in October 2011.

Independent non-executive Directors

Mr. Jiang Min (蔣敏), aged 55, was appointed as an independent non-executive Director of the Company on 30 September 2019. Mr. Jiang has nearly 30 years of experiences in legal practices. Mr. Jiang graduated from Anhui University* (安徽大學) in July 1987 and July 1990 with a bachelor's degree and a master's degree in law, respectively. Mr. Jiang received his lawyer qualification certificate (律師資格證書) from Ministry of Justice of China in March 1989.

The following table shows the key working experience of Mr. Jiang:

Period	Company	Position
September 1990 to December 1995	Anhui Jingji Law Offices* (安徽省經濟律師事務所)	Attorney
January 1996 to present	Anhui Tianhe Law Offices* (安徽天禾律師事務所)	Partner
May 2002 to present	All China Lawyers Association* (中華全國律師協會)	Executive director and vice president
April 2005 to present	Anhui Lawyers Association* (安徽省律師協會)	President and honorary president
May 2012 to June 2016	Fourth and Fifth Merger and Acquisition Audit Committee of listed companies of China Securities Regulatory Commission	Member

Period	Company	Position
June 2014 to present	Qingdao Beer Co., Ltd.* (青島啤酒股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600600) and the Stock Exchange (stock code: 168)	Independent non-executive director
May 2016 to present	Shandong Pharmaceutical Glass Co., Ltd.* (山東省藥用玻璃股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600529)	Independent non-executive director
December 2016 to present	Sunshine Power Co., Ltd.* (陽光電源股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300274)	Independent non-executive director
January 2019 to present	Keda Intelligent Technology Co., Ltd.* (科大智能科技股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 300222)	Independent non-executive director
May 2019 to present	Qingdao Port International Co., Ltd.* (青島港國際股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 601298) and the Stock Exchange (stock code: 6198)	Independent non-executive director

Mr. Yang Zhanjun, aged 50, was appointed as an independent non-executive Director of the Company on 27 October 2017.

The following table shows the key working experience of Mr. Yang:

Period	Company	Position
March 2008 to December 2017	Keiser University	Associate dean of business/vice chancellor of international affairs
February 2018 to present	American Higher Education Alliance	Senior executive

Mr. Yang was awarded a degree of master of business administration from Florida International University in Miami, the U.S., in December 2002.

Mr. Chau Kwok Keung (鄒國強), aged 43, was appointed as an independent non-executive Director of the Company on 27 October 2017.

The following table shows the key working experience of Mr. Chau:

Period	Company	Position
January 2001 to June 2002	Andersen & Co.	Experienced staff accountant/senior consultant
June 2002 to August 2003	Shanghai Hawei New Material and Technology Co., Ltd.	Financial controller
August 2003 to April 2005	China South City Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 1668)	Deputy group financial controller
October 2005 to October 2007	China. com Inc., a company whose shares are listed on the Stock Exchange (stock code: 8006)	Qualified accountant/chief financial officer/ company secretary/authorised representative
May 2010 to June 2013	RIB Software AG, a German software company whose shares are listed in Frankfurt Stock Exchange (stock code: RSTAG)	a member of supervisory board
May 2014 to May 2019	Qingdao Port International Co., Ltd., a company listed on the Shanghai Stock Exchange with stock code of 601298 and the Stock Exchange with stock code of 06198	Independent non-executive director, chairman of the audit committee
October 2015 to present	The9 Limited, whose shares are listed by way of American Depositary Shares on the NASDAQ (stock code: NCTY)	Independent director
November 2007 to January 2020	Comtec Solar Systems Group Limited ("Comtec"), a company whose shares are listed on the Stock Exchange (stock code: 712)	Executive director, chief financial officer and directors of certain subsidiaries of Comtec
June 2008 to present	Comtec, a company whose shares are listed on the Stock Exchange (stock code: 712)	Authorised representative and company secretary
December 2018 to present	China Tobacco International (HK) Company Limited, a company whose shares are listed on the Stock Exchange (stock code: 6055)	Independent non-executive director, member of the audit committee and member of the connected transactions control committee
December 2019 to present	Forward Fashion (International) Holdings Company Limited, a company whose shares are listed on the Stock Exchange (stock code: 2528)	Independent non-executive director and the chairman of the audit committee

Mr. Chau was awarded a bachelor's degree in business administration from the Chinese University of Hong Kong in May 1998. Mr. Chau has been a member of the Association of Chartered Certified Accountants since June 2002, a member of Hong Kong Institute of Certified Public Accountants since July 2005 and a chartered financial analyst of CFA Institute since September 2003. Mr. Chau also obtained a certificate of Qualified Independent Director from the Shanghai Stock Exchange since August 2017.

SENIOR MANAGEMENT

Mr. Huang Yuan (黃源), aged 56, joined the Group in January 2015. Mr. Huang has been the vice president of the Xinhua Group since January 2015, and the chairman of the board of supervisors of Xinhua University since March 2015.

Mr. Huang has more than 15 years of experience in education. The following table shows the key working experience of Mr. Huang:

Period	Company	Position
September 2002 to March 2004	Anhui Xinhua Real Estate Co., Ltd.* (安徽新華房地產有限公司)	Vice general manager and manager of procurement department
March 2004 to April 2008	Anhui New East Cuisine Education Institute	Principal
April 2008 to January 2015	Xinhua Education Group	Vice general manager
January 2015 to present	Xinhua Group	Vice president
March 2015 to present	Xinhua University	Chairman of the board of supervisors

Mr. Huang graduated from Renmin University of China* (中國人民大學) in Beijing, the PRC with a degree of master of business administration in November 2008.

Mr. Ni Zheng (倪徵), aged 43, joined the Group in December 2012 and was appointed as the chief officer of international operations on 31 October 2017.

The following table shows the key working experience of Mr. Ni:

Period	Company	Position
December 2012 to April 2016 and July 2017 to September 2018	Xinhua University	Deputy principal
April 2016 to July 2017	Hefei Xinhua Experimental Middle School* (合肥新華實驗中學)	Chairman
August 2016 to January 2017	Anhui Youbangxue Education and Technology Company Limited* (安徽優邦學教育科技有限公司)	General manager
January 2017 to July 2017	Anhui Youbangxue Education and Technology Company Limited* (安徽優邦學教育科技有限公司)	Vice general manager, general manager of the business department No. 1 and the head of the branding operation department

Period	Company	Position
July 2017 to August 2018	Xinhua Group	General manager of the investment department and the head of the education development department
August 2018 to present	Xinhua Group	Investment director

Mr. Ni graduated from Huainan Normal College* (淮南師範專科學校, currently known as Huainan Normal University* (淮南師範學院)) in Huainan City, Anhui Province, the PRC majoring in Chinese language and literature in July 2000 and graduated from Guizhou University* (貴州大學) in Guiyang City, Guizhou Province, the PRC with a degree of master of business administration in June 2017.

Ms. Wang Jihong (王繼紅) (also known as **Wang Ke (王可)**), aged 61, joined the Group in February 1998 and was appointed as the chief strategic officer of our Company on 31 October 2017.

Ms. Wang has more than 17 years of experience in education. The following table shows the key working experience of Ms. Wang:

Period	Company	Position
August 2002 to June 2004 and March 2005 to present	Xinhua School	Assistant to principal/deputy principal/principal/council member
July 2004 to March 2005	Xinhua Group	Vice manager of human resource department
June 2014 to April 2016	Hefei Xinhua Experimental Middle School* (合肥新華實驗中學)	Principal/chairman
April 2016 to April 2018	Xinhua University	Deputy principal
April 2018 to present	School of Clinical Medicine	Executive principal

Ms. Wang obtained the qualification as a geological surveying engineer in June 2004 and was awarded the Outstanding Principal of Private Education in Anhui Province* (安徽省民辦教育優秀校長) jointly issued by the Private Education Professional Committee of Chinese Society for Taoxingzhi Studies* (中陶會民辦教育專業委員會) and the Education Society of Anhui Province* (安徽省教育學會) in October 2010. She was appointed as the vice president of Anhui Institute of Vocational and Adult Education, Vocational Branch* (安徽省職業與成人教育學會中職分會) in 2007 and as the vice president of Hefei Private Education Association* (合肥市民辦教育協會) in December 2013. She graduated from Anhui Open University* (安徽廣播電視大學) in Hefei City, Anhui Province, the PRC majoring in basic management of Party and government cadres in July 1986.

REPORT OF THE DIRECTORS

The Board is pleased to present the report of the Directors together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

GLOBAL OFFERING

The Company was incorporated on 30 August 2017 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 26 March 2018.

PRINCIPAL ACTIVITIES

The Group is a leading private higher education provider in the Yangtze River Delta. Analysis of the principal activities of the Group during the year ended 31 December 2019 is set out in the note 1 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group during the year ended 31 December 2019 as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance, an indication of likely future developments in the Group's business and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the section headed "Chairman's Statement" on page 4 and "Management Discussion and Analysis" on pages 5 to 20. These discussions form part of this report. Events affecting the Company that have occurred since the end of the financial year is set out in the section headed "Non-adjusting Events after the reporting period" on page 157.

SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out in note 14 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss on page 102 of this annual report.

DIVIDEND POLICY

Policy on payment of dividend is in place setting out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to its shareholders. The Company does not have any pre-determined dividend payout ratio. The declaration and payment of dividends shall be determined at the sole discretion of the Board after taking into account the Company's financial performances, working capital requirements, future prospects and other factors and the applicable regulations. The policy shall be reviewed periodically and submitted to the Board for approval if amendments are required.

ANNUAL GENERAL MEETING

The AGM will be held on Monday, 22 June 2020 and a notice convening the AGM will be published and despatched to the Shareholders in due course.

FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$5.53 cents per share (equivalent to approximately RMB5.04 cents per share) for the year ended 31 December 2019 (2018: HK$5.59 cents per share). The final dividend is subject to the approval of the Shareholders at the AGM and the final dividend will be payable on or around Friday, 17 July 2020 to the Shareholders whose names appear on the register of members of the Company on Friday, 3 July 2020.

CLOSURE OF THE REGISTER OF MEMBERS

For Determining the Entitlement to Attend and Vote at the AGM

The register of members of the Company will be closed from Wednesday, 17 June 2020 to Monday, 22 June 2020, both days inclusive, in order to determine the identity of the Shareholders who are entitled to attend the AGM to be held on Monday, 22 June 2020, 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 Tuesday, 16 June 2020.

For Determining the Entitlement to the Proposed Final Dividend

The register of members of the Company will also be closed from Tuesday, 30 June 2020 to Friday, 3 July 2020, 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 Monday, 29 June 2020.

PRINCIPAL RISK AND UNCERTAINTIES AND RISK MANAGEMENT

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

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

Credit Risk

The Group's credit risk is primarily attributable to trade receivables and financial assets which comprise bank balances and investments in wealth management products. Its management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

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

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

- The Group has made arrangements with banks to ensure that it is able to obtain credits to support the business operation and expansion.

ENVIRONMENT, HEALTH AND SAFETY

The business of the Group is not in violation of the PRC environment laws and requisitions in any material aspects.

The Group is dedicated to protecting the health and safety of its students. Each of its schools has adopted and implemented student health and safety measures and procedures to protect its students from bodily harm and other health and safety risks. The Group provides routine medical services for the students and faculty by outsourcing such services to third party medical care providers. In the event of any serious and emergency medical situations, the Group will promptly send its students to local hospitals for treatment. With respect to school safety, the Group promotes the security of its schools by employing its own security personnel.

As at the date of this report, the Group did not experience any serious accident, medical situation or safety issue involving its students.

FINANCIAL SUMMARY

A summary of the Group's results, assets and liabilities for the last five financial years are set out on page 3 "Financial Highlights" 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$1,239.8 million (equivalent to approximately RMB1,038.0 million), which was intended to be applied in the manner as set out in the section headed "Future Plan and Use of Proceeds" of the Prospectus. Based on the current business development of the Company, the unutilised amount will be graduating utilised within 3-5 years.

As at 31 December 2019, a total amount of HK$482.4 million (equivalent to approximately RMB427.4 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 as at 31 December 2019:

Purpose	Percentage to total amount	Net proceeds HK$ (million)	Utilized amount (as at 31 December 2019) HK$ (million)	Unutilized amount (as at 31 December 2019) HK$ (million)
Acquire other schools to expand our school network, acquire undergraduate colleges that can grant bachelor's degrees and entities that own educational assets or institutions	53.0	657.1	346.7	310.4
Improve our school facilities and educational equipment	35.0	433.9	45.7	388.2
Strengthen our market position and enhance our brand recognition	2.0	24.8	–	24.8
Fund our working capital and general corporate purposes	10.0	124.0	90.0	34.0
Total	100.0	1,239.8	482.4	757.4

MAJOR CUSTOMERS AND SUPPLIERS

The customers primarily consist of our students. For the year ended 31 December 2019, the Group's five largest customers accounted for less than 30% of our revenue, and the Group did not have any single customer who accounted for more than 10% of our revenue.

The Group's suppliers primarily consist of construction companies, textbook suppliers and utility suppliers. For the years ended 31 December 2019, purchases from the Group's five largest suppliers amounted to approximately RMB30.0 million (2018: RMB37.4 million), accounting for approximately 21.5% (2018: 33.8%) of the total purchases for the Reporting Period. For the same period, purchases from the Group's largest supplier amounted to approximately RMB9.5 million (2018: RMB11.8 million), accounting for approximately 6.8% (2018: 10.7%), of the total purchases for the relevant periods. None of the Directors, their respective close associates, or any Shareholder who, to the knowledge of the Directors, owns more than 5% of our issued capital, had any interest in any of the Group's five largest suppliers or customers during the Reporting Period.

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 Reporting Period, there were no material and significant dispute between the Group and its employees, suppliers and/or customers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2019 are set out in note 11 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's securities.

RESERVES

Details of movements in the reserves of the Group and the Company during the year ended 31 December 2019 are set out in the consolidated statement of changes in equity on page 105 of this annual report and note 23 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution as at 31 December 2019 comprised the share premium and retained earnings of RMB965,367,000.

BANK LOANS AND OTHER BORROWINGS

The bank loans of the Group amounted to RMB330 million as at 31 December 2019. Details of which were disclosed in note 20 to the consolidated financial statements.

DIRECTORS

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

Non-executive Director:

Mr. Wu Junbao *(Chairman)*

Executive Directors:

Mr. Zhang Ming
Mr. Lu Zhen
Mr. Wang Yongkai

Independent Non-executive Directors:

Mr. Jiang Min *(appointed on 30 September 2019)*
Mr. Yang Zhanjun
Mr. Chau Kwok Keung
Ms. Zhang Kejun *(resigned on 30 September 2019)*

Ms. Zhang Kejun tendered her resignation as an independent non-executive Director, a member of the audit committee (the "Audit Committee") and the nomination committee (the "Nomination Committee") and the chairman of the remuneration committee (the "Remuneration Committee") with effect from 30 September 2019.

Mr. Jiang Min has been appointed as an independent non-executive Director, a member of the Audit Committee and the Nomination Committee and the chairman of the Remuneration Committee with effect from 30 September 2019.

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 only until the first general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting. Accordingly, Mr. Jiang Min shall hold office till the AGM and, being eligible, will offer himself 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 and shall then be eligible for re-election. Any Director appointed by the Board pursuant to article 83(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by the rotation. Accordingly, Mr. Wu Junbao and Mr. Chau Kwok Keung shall retire by rotation, and being eligible, have offered themselves for re-election at the forthcoming AGM to be held in due course.

Details of the Directors to be re-elected at the AGM are set out in the circular will be sent to the Company's Shareholders in due course.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 21 to 27 of this annual report.

CHANGES TO INFORMATION IN RESPECT OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of our Directors since the publication of the 2018 annual report are as below:

Chairman and non-executive Director, Mr. Wu Junbao had the following changes in his information:

Mr. Wu Junbao was appointed as non-executive director of China East Education Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 667) in November 2018.

Executive Director, Mr. Lu Zhen had the following changes in his information:

Mr. Lu Zhen was appointed as non-executive director of China East Education Holdings Limited, a company whose shares are listed on the Stock Exchange (stock code: 667) in November 2018.

Independent non-executive Director, Mr. Chau Kwok Keung had the following changes in his information:

Mr. Chau Kwok Keung was appointed as independent non-executive director, member of the audit committee and member of the connected transactions control committee of China Tobacco International (HK) Company Limited, a company whose shares are listed on the Stock Exchange (stock code: 6055) in December 2018 and joined as independent non-executive director and the chairman of the audit committee of Forward Fashion (International) Holdings Company Limited, a company whose shares are listed on the Stock Exchange (stock code: 2528) in December 2019. Mr. Chau has obtained a certificate of Qualified Independent Director from the Shanghai Stock Exchange since August 2017. Mr. Chau Kwok Keung resigned from his positions of executive director, chief financial officer, and directors of certain subsidiaries of Comtec, a company whose shares are listed on the Stock Exchange (stock code: 712) in January 2020.

Please refer to the section headed "DIRECTORS AND SENIOR MANAGEMENT" of this annual report for the updated details of their information.

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 and the Company considers such Directors to be independent throughout the year ended 31 December 2019 and remain so as at the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of Mr. Zhang Ming, Mr. Lu Zhen and Mr. Wang Yongkai, being the executive Directors of the Company, has entered into a service contract with the Company for an initial fixed term of three years commencing from 31 October 2018, the Listing Date and the Listing Date, 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 the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date or 30 September 2019 (as applicable) 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 or an appointment letter 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 Director or its 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 2019 and up to the date of this annual report.

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 Shareholder or any of its 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 2019 and up to the date of this annual report.

No contract of significance for the provision of services to the Company or any of its subsidiaries or fellow subsidiaries by the Controlling Shareholder of the Company or any of its subsidiaries was entered into during the year ended 31 December 2019 and up to the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended 31 December 2019 and up to the date of this annual report.

EMOLUMENT POLICY

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

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 page VI-21 of the Prospectus "Share Option Scheme".

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

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 6 to the consolidated financial statements.

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

As at 31 December 2019, 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 pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

(i) Long position in the Company

Name	Capacity/nature of interest	Number of Shares	Approximate percentage of shareholding in the Company as at 31 December 2019
Mr. Wu Junbao[1]	Interest in a controlled corporation	1,150,191,879	71.50%

Note:

(1) Mr. Wu Junbao is the sole shareholder of Wu Junbao Company Limited and he is therefore deemed to be interested in the Shares held by Wu Junbao Company Limited upon the Listing.

(ii) Long position in associated corporation

Xinhua Group

Name	Capacity/nature of interest	Amount of registered share capital	Approximate percentage of shareholding in the associated corporation as at 31 December 2019
Mr. Wu Junbao	Beneficial owner	RMB100,000,000	95.70%

Save as disclosed above, as at 31 December 2019, none of the Directors or the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or required to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2019, 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 as at 31 December 2019
Wu Junbao Company Limited[1]	Beneficial owner	1,150,191,879	Long position	71.50%
Mr. Wu Junbao[1]	Interest in a controlled corporation	1,150,191,879	Long position	71.50%

Note:

(1) Mr. Wu Junbao is the sole shareholder of Wu Junbao Company Limited and he is therefore deemed to be interested in the Shares held by Wu Junbao Company Limited.

Save as disclosed above, as at 31 December 2019, the Directors and the chief executive of the Company 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 8 March 2018 ("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 160,000,000 Shares excluding Shares which may fall to be issued upon the exercise of the over-allotment option granted by the Company, representing approximately 10% of the issued shares as at the Listing Date. As at the date of this annual report, the total number of Shares available for issue under the Share Option Scheme is 92,100,000 Shares, representing approximately 5.73 % of the total issued share capital of the Company.

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 a Share; (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and (c) the average closing price of a 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 7 years and 11 months.

Details of the movement of share options granted under the Share Option Scheme during the Reporting Period are as follows:

Category and name of participant	Date of grant	Exercise price per Share	Outstanding as at 1 January 2019	Granted during the Reporting Period	Exercised during the Reporting Period	Cancelled/ Lapsed during the Reporting Period	Outstanding as at 31 December 2019
Director							
Zhang Ming	30 April 2019	HK$2.69 (1)	–	15,000,000 (2)	–	–	15,000,000
Lu Zhen	15 July 2019	HK$2.82 (3)	–	6,000,000 (4)	–	–	6,000,000
Wang Yongkai	15 July 2019	HK$2.82 (3)	–	6,000,000 (4)	–	–	6,000,000
Employees	15 July 2019	HK$2.82 (3)	–	40,900,000 (4)(5)	–	–	40,900,000

Notes:

(1) The closing price of the Share immediately before the date on which share options were granted was HK$2.71 per Share.

(2) Share options granted shall vest in accordance with the timetable below, each with an exercise period commencing from the vesting date and ending on the expiration date of five years after the vesting date:

Vesting date	Percentage of Share Options to vest
30 April 2020	20% of the total number of Share Options granted
30 April 2021	20% of the total number of Share Options granted
30 April 2022	20% of the total number of Share Options granted
30 April 2023	20% of the total number of Share Options granted
30 April 2024	20% of the total number of Share Options granted

(3) The closing price of the Share immediately before the date on which share options were granted was HK$2.66 per Share.

(4) Among the 52,900,000 Share Options granted on 15 July 2019, 33,000,000 Share Options (including Share options granted to Lu Zhen and Wang Yongkai (the "Group A Share Options") shall vest in accordance with the timetable below with an exercise period commencing from the relevant Vesting Date and ending on the expiration date of five years after the Vesting Date (for this purpose, the date or each such date on which the Share Options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
15 July 2020	25% of the total number of the Group A Share Options granted
15 July 2021	25% of the total number of the Group A Share Options granted
15 July 2022	25% of the total number of the Group A Share Options granted
15 July 2023	25% of the total number of the Group A Share Options granted

(5) Among the 52,900,000 Share Options granted on 15 July 2019, 1,500,000 Share Options (the "Group B Share Options") shall vest in accordance with the timetable below with an exercise period commencing from the relevant Vesting Date and ending on the expiration date of five years after the Vesting Date:

Vesting Date	Percentage of Share Options to vest
15 July 2020	30% of the total number of the Group B Share Options granted
15 July 2021	30% of the total number of the Group B Share Options granted
15 July 2022	40% of the total number of the Group B Share Options granted

Among the 52,900,000 Share Options granted on 15 July 2019, 15,200,000 Share Options (the "Group C Share Options") shall vest in accordance with the timetable below with an exercise period commencing from the relevant Vesting Date and ending on the expiration date of five years after the Vesting Date:

Vesting Date	Percentage of Share Options to vest
15 July 2020	50% of the total number of the Group C Share Options granted
15 July 2021	50% of the total number of the Group C Share Options granted

Among the 52,900,000 Share Options granted on 15 July 2019, 1,200,000 Share Options (the "Group D Share Options") shall vest in accordance with the timetable below with an exercise period commencing from the relevant Vesting Date and ending on the expiration date of five years after the Vesting Date:

Vesting Date	Percentage of Share Options to vest
15 July 2020	100% of the total number of the Group D Share Options granted

Among the 52,900,000 Share Options granted on 15 July 2019, 2,000,000 Share Options shall vest on the Date of Grant with an exercise period commencing from the Date of Grant and ending on the expiration date of five years after the Date of Grant.

Other than disclosed above, no other share options were granted, exercised, lapsed or cancelled during the Reporting Period.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Scheme" of this annual report and in the Prospectus, during the year ended 31 December 2019 and up to the date of this annual report, 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).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Reporting Period, 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.

DEED OF NON-COMPETITION

Although the Controlling Shareholders have control of formal middle school and informal education businesses that are not included in the Group, the Controlling Shareholders believe that their interests in such businesses will not, directly or indirectly, compete with the Group's business because there is a clear delineation of businesses of the Group and the Controlling Shareholders.

The Controlling Shareholders have entered into the Deed of Non-competition on 8 March 2018 in favour of the Company, pursuant to which the Controlling Shareholders have jointly and severally and irrevocably undertaken with the Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of our Group) would not, during the restricted period, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, company (enterprise or corporate entity), partnership or associate (whether of an economic nature), among other things, carry on, participate or be interested or engaged in or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time.

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

Under the Structured Contracts, Mr. Wu Junbao 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 Deed of Non-competition during the Reporting Period for disclosure in this annual report.

The independent non-executive Directors have reviewed the compliance with the Deed of Non-competition 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 Deed of Non-competition.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

As at the date of this annual report, the Group has entered into the following continuing connected transactions pursuant to Chapter 14A of the Listing Rule:

(1) Service Agreements

Pursuant to the service agreements (the "Service Agreements") dated 8 March 2018 entered into by Xinhua University with each of Anhui New East Cuisine Education Institute* (安徽新東方烹飪專修學院) and Anhui Xinhua Computer Institute* (安徽新華電腦專修學院) (the "Relevant Institutes"), each of the Relevant Institutes have agreed to assist Xinhua University in promoting its adult higher education program to students of the Relevant Institutes. In connection with such promotional effort, for those students who enrolled in the Group's adult higher education program (the "Relevant Students"), each of the Relevant Institutes have also agreed to provide convenient teaching locations for the Relevant Students to attend some of the classes for such program. In consideration of the foregoing services, Xinhua University shall pay to the Relevant Institutes a service fee equivalent to 50% of the tuition fees of the Relevant Students. The Service Agreements are for a term with effect from the Listing Date to 31 December 2020, renewable for another three years unless terminated by either party by serving written notice to the other party within 30 days prior to expiry of the Service Agreements (subject to compliance with the provisions under the Listing Rules regarding continuing connected transactions). The Stock Exchange has granted a waiver to the Company under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under the Listing Rules in respect of the transactions contemplated under the Service Agreements. See "Connected Transactions – Continuing Connected Transactions – Non-exempt Continuing Connected Transactions" in the Prospectus for details.

The Directors are of the view that the transactions contemplated under the Service Agreements are on normal commercial terms or terms more favorable to the Group.

(2) Structured Contracts II

A. Overview

The Group currently conducts the private higher education business through the PRC Operating Schools in the PRC as PRC laws and regulations generally restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners. The Group does not hold any equity interest in the PRC Operating Schools. The Structured Contracts, through which the Group obtains control over and derive the economic benefits from the PRC Operating Schools, have been narrowly tailored to achieve the business purpose and minimize the potential conflict with relevant PRC laws and regulations. The Group had entered into the Structured Contracts for the existing PRC Operating Schools and expect to enter into structured contracts for the schools to be newly established or invested in, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

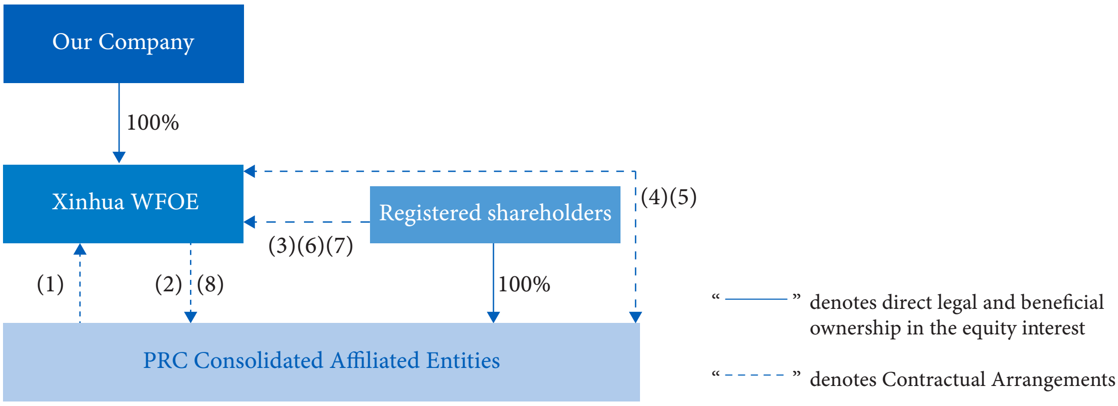
In order to comply with the PRC laws and regulations as set out above while availing ourselves of international capital markets and maintaining effective control over all of the operations, on 31 October 2017, the wholly-owned subsidiary, Xinhua Anhui, entered into various agreements that constitute the Structured Contracts I with, among others, the PRC Operating Schools and the School Sponsor, under which all economic benefits arising from the business of the PRC Operating Schools and the School Sponsor are transferred to Xinhua Anhui to the extent permitted under the PRC laws and regulations by means of service fees payable by the PRC Operating Schools and the School Sponsor to Xinhua Anhui.

Pursuant to relevant local government tax policy in Khorgos, Xinjiang, an enterprise established in Khorgos between 1 January 2010 and 31 December 2020 and falling within the scope of the Catalog of Enterprise Income Tax Incentives for Industries Particularly Encouraged by Poverty Areas of Xinjiang for Development* (新疆困難地區重點鼓勵發展產業企業所得稅優惠目錄) is exempted from enterprise income tax entirely for five years beginning from the first year in which revenue from its principal business is earned and, after this initial period, such enterprise is entitled to another exemption on the local portion of its enterprise income tax. In light of this preferential tax policy, on 17 January 2018, Xinhua Xinjiang was established in Khorgos, Xinjiang, the PRC as a wholly foreign owned enterprise and was wholly owned by Xinhua HK. Xinhua Xinjiang is engaged in the provision of technical and management consultancy services to our PRC Operating Schools and School Sponsor and therefore falls within the scope of the aforesaid catalog. On 7 February 2018, Xinhua Xinjiang made a filing with the relevant local tax authorities in Khorgos for the preferential tax treatments, pursuant to which Xinhua Xinjiang is fully exempted from enterprise income tax from 1 January 2018 to 31 December 2020. See "Financial Information – Description of Major Components of The Combined Statements of Profit or Loss – Income Tax Expenses" in the Prospectus for details.

On 6 February 2018, Xinhua Xinjiang entered into the Structured Contracts II, the terms and conditions of which are the same as those contained in the Structured Contracts I in all material aspects, pursuant to which the Structured Contracts I were automatically terminated and all economic benefits arising from the business of the PRC Consolidated Affiliated Entities are transferred to Xinhua Xinjiang by means of services fees payable by the PRC Consolidated Affiliated Entities to Xinhua Xinjiang.

Although the Registered Shareholders are not consolidated as part of the Group, they are parties to certain agreements which constitute the Structured Contracts to ensure that the Registered shareholders' rights as shareholders of Xinhua Group are actually controlled by Xinhua WFOE.

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



Notes:

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

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

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

4. Entrustment of school sponsor' rights in the PRC Operating Schools by Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (5) School Sponsor's Powers of Attorney" in the Prospectus for details.

5. Entrustment of directors' rights in the PRC Operating Schools by directors of the PRC Operating Schools including Directors' Powers of Attorney. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (6) Directors' Powers of Attorney" in the Prospectus for details.

6. Entrust of Shareholders' right including Shareholders' power of attorney. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (7) Shareholders' Rights Entrustment Agreement" and "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (8) Shareholders' Powers of Attorney" in the Prospectus for details.

7. Pledge of equity interest by the Registered Shareholders of their equity interest in Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (10) Equity Pledge Agreement" in the Prospectus for details.

8. Provision of loans by Xinhua WFOE to Xinhua Group. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (11) Loan Agreement" in the Prospectus for further details.

9. 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." See "Regulatory Overview" in the Prospectus for further details.

Xinhua Group, or the School Sponsor, is a holding company to hold the school sponsor interests in the PRC Operating Schools and it is not engaged in any other business. Under the Structured Contracts, each of the PRC Consolidated Affiliated Entities entered into the Exclusive Technical Service and Management Consultancy Agreement and Loan Agreement with, among others, Xinhua WFOE, pursuant to which each of the School Sponsor and the PRC Operating Schools will be directly bound by and subject to the terms and conditions thereof. Accordingly, for any services provided by Xinhua WFOE to any of the School Sponsor and the PRC Operating Schools, the respective service fee will be paid by such School Sponsor and/or PRC Operating Schools to Xinhua WFOE directly.

In addition, in order to prevent the leakage of assets and values of the PRC Consolidated Affiliated Entities, the Registered Shareholders and the PRC Consolidated Affiliated Entities have undertaken that, without the prior written consent of Xinhua WFOE or its designated party, the PRC Operating Schools shall not, among others, distribute dividends or other payments to the School Sponsor, or the Registered Shareholders.

B. Summary of the Material Terms of the Structured Contracts I

(1) Business Cooperation Agreement

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

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

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

Furthermore, each of Registered Shareholders undertakes to Xinhua Anhui that, unless with the prior written consent of Xinhua Anhui, 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 Schools and/or the School Sponsor and its subsidiaries ("Competing Business"), (ii) use information obtained from any of the PRC Operating Schools and/or the School Sponsor or its subsidiaries for the Competing Business, and (iii) obtain any benefit from any Competing Business. Each of the Registered Shareholders further consents and agrees that, in the event that the Registered Shareholders (severally or jointly) directly or indirectly engage, participate in or conduct any Competing Business, Xinhua Anhui 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 I. If Xinhua Anhui does not exercise such option, the Registered Shareholders shall cease the operation of the Competing Business within a reasonable time.

(2) *Exclusive Technical Service and Management Consultancy Agreement*

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

Furthermore, Xinhua Anhui agreed to provide exclusive management consultancy services to the PRC Operating Schools and the School Sponsor, including but not limited to, (a) design of curriculum; (b) preparation, selection and/or recommendation of course materials; (c) provision of teacher and staff recruitment and training support and services; (d) provision of student recruitment support and services; (e) provision of public relation services; (f) preparation of long term strategic development plans and annual working plans; (g) development of financial management systems and recommendation and optimization on annual budget; (h) advising on design of internal structures and internal management; (i) provision of management and consultancy training; (j) conduct of market research; (k) preparation of market development plan; (l) building of marketing network; and (m) providing other management technical services reasonably requested by the PRC Operating Schools and the School Sponsor.

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

(3) *Exclusive Call Option Agreement*

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

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

(4) *School Sponsor's and Directors' Rights Entrustment Agreement*

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, Xinhua Group has irrevocably authorized and entrusted Xinhua Anhui to exercise all its rights as school sponsor of each of the PRC Operating Schools to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to appoint and/or elect directors or council members of the schools; (b) the right to appoint and/or elect supervisors of the schools; (c) the right to understand the operation and financial situation of the schools; (d) the right to review the resolutions and records of the board of directors and financial statements and reports of the schools; (e) the right to obtain reasonable returns as school sponsor of the schools in accordance with the laws and the articles of association of each school; (f) the right to acquire residue assets upon liquidation of the schools in accordance with the laws and the articles of association of each school; (g) the right to transfer school sponsor's interest in accordance with the laws; (h) the right to choose for the school to be a for-profit school or non-profit school pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time; and (i) other school sponsor's rights pursuant to applicable PRC laws and regulations and the articles of association of each school as amended from time to time.

Pursuant to the School Sponsor's and Directors' Rights Entrustment Agreement, each of the directors/council members appointed by the School Sponsor in the PRC Operating Schools (the "Appointees") has irrevocably authorized and entrusted Xinhua Anhui to exercise all his/her rights as directors/council members of the PRC Operating Schools and to the extent permitted by PRC laws. These rights include, but are not limited to: (a) the right to attend meetings of the board of directors as representative of the directors appointed by the School Sponsor; (b) the right to exercise voting rights in respect of all matters discussed and resolved at the board meeting of each of the PRC Operating Schools; (c) the right to propose to convene interim board meetings of each of the PRC Operating Schools; (d) the right to sign all board minutes, board resolutions and other legal documents which the directors appointed by Xinhua Group have authority to sign in his/her capacity as directors of the PRC Operating Schools; (e) the right to instruct the legal representative and financial and business responsible persons of the PRC Operating Schools to act in accordance with the instruction of Xinhua Anhui; (f) the right to exercise all other rights and voting rights of directors as prescribed under the articles of association of the PRC Operating Schools; (g) the right to handle the legal procedures of registration, approval and licensing of the PRC Operating Schools at the education department, the department of civil affairs or other government regulatory departments; and (h) other directors' rights pursuant to applicable PRC laws and regulations and the articles of association of the PRC Operating Schools as amended from time to time.

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

(5) *School Sponsor's Powers of Attorney*

Pursuant to the School Sponsor's Powers of Attorney executed by the School Sponsor in favor of Xinhua Anhui, the School Sponsor authorized and appointed Xinhua Anhui, the director of which is Ms. Fei Yun (費雲) (who is not a director of any of the School Sponsor and PRC Operating Schools and therefore does not give rise to any conflicts of interest), as its agent to act on its behalf to exercise or delegate the exercise of all its rights as school sponsor of each of the PRC Operating Schools. For details of the rights granted, see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (4) School Sponsor's and Directors' Rights Entrustment Agreement" of the Prospectus.

Xinhua Anhui shall have the right to further delegate the rights so delegated to the directors of Xinhua Anhui or other designated person. The School Sponsor 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 the School Sponsor's subdivision, merger, winding up, consolidation, liquidation or other similar events. The School Sponsor's Power of Attorney shall constitute a part and incorporate terms of the School Sponsor's 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 Xinhua Anhui, each of the Appointees authorized and appointed Xinhua Anhui, the sole director of which is Ms. Fei Yun (費雲) (who is not a director of any of the School Sponsor and/or PRC Operating Schools and therefore 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 of his/her rights as directors/council members of the PRC Operating Schools.

Xinhua Anhui shall have the right to further delegate the rights so delegated to the directors of Xinhua Anhui or other designated person. 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 Sponsor's and Directors' Rights Entrustment Agreement.

(7) *Shareholders' Rights Entrustment Agreement*

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

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

(8) Shareholders' Powers of Attorney

Pursuant to the Shareholders' Powers of Attorney executed by each of the Registered Shareholders in favor of Xinhua Anhui, each of the Registered Shareholders authorized and appointed Xinhua Anhui, as his or their agent to act on his or their behalf to exercise or delegate the exercise of all his or their rights as shareholders of the Xinhua Group. For details of the rights granted, see "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (7) Shareholders' Rights Entrustment Agreement" in the Prospectus.

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

(9) Spouse Undertakings

Pursuant to the Spouse Undertakings, the respective spouse of the Registered Shareholders has irrevocably undertaken that:

(a) the spouse has full knowledge of and has consented to the entering into of the Structured Contracts I by the respective Registered Shareholders, and in particular, the arrangement as set out in the Structured Contracts I in relation to the restrictions imposed on the direct or indirect equity interest in Xinhua Group, pledge or transfer the direct or indirect equity interest in Xinhua Group, or the disposal of the direct or indirect equity interest in Xinhua Group in any other forms;

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

(c) the spouse authorizes the respective Registered Shareholders or his authorized 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 Xinhua Group (direct or indirect) in order to safeguard the interest of Xinhua Anhui under the Structured Contracts I and give effect to the fundamental purposes thereunder, and confirms and agrees to all such documents and procedures;

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

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

(f) all undertakings, confirmations, consents and authorizations under the Spouse Undertakings shall continue to be valid and binding until otherwise terminated by both Xinhua Anhui and the spouses of the respective Registered Shareholders in writing.

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

(10) Equity Pledge Agreement

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

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

Any of the following events shall constitute an event of default under the Equity Pledge Agreement:

(a) any of the Registered Shareholders, the School Sponsor or the PRC Operating Schools commits any breach of any obligations under the Structured Contracts I;

(b) any representations or warranties or information provided by any of the Registered Shareholders, the School Sponsor or the PRC Operating Schools under the Structured Contracts I is proved incorrect or misleading; or

(c) any provision in the Structured Contracts I becomes invalid or incapable of performance due to changes in PRC laws and regulations or promulgation of new laws and regulations in the PRC, and the parties have not agreed on any alternative arrangement.

Upon the occurrence of an event of default as described above, Xinhua Anhui shall have the right to enforce the Equity Pledge Agreement by written notice to the Registered Shareholders in one or more of the following ways:

(a) to the extent permitted under PRC laws and regulations, Xinhua Anhui may request the Registered Shareholders to transfer all or part of his or her or its equity interest in the School Sponsor to any entity or individual designated by Xinhua Anhui at the lowest consideration permissible under the PRC laws and regulations;

(b) sell the pledged equity interest by way of auction or at a discount and have priority in the entitlement to the sales proceeds;

(c) dispose of the pledged equity interest in other manner subject to applicable laws and regulations.

Under the Structured Contracts I, there is no equity pledge arrangement between Xinhua Anhui and the School Sponsor over the school sponsor's interest in the PRC Operating Schools held by the School Sponsor. As advised by the PRC Legal Advisors, if the Group is to make an equity pledge arrangement with the School Sponsor where the School Sponsor pledges its school sponsor's interest in each of the PRC Operating Schools 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 the School Sponsor's interests in schools cannot be registered with the relevant PRC regulatory authorities.

Nevertheless, the Group has implemented various measures which shall remain in place before the Structured Contracts I being unwound, with the aim of further enhancing the control over the PRC Operating Schools and the School Sponsor, in particular:

(a) as disclosed above, pursuant to the Business Cooperation Agreement, the School Sponsor, the Registered Shareholders and each of the PRC Operating Schools have undertaken that, without prior written consent of Xinhua Anhui or its designated party, he/it shall not conduct or cause to conduct any activity or transaction which may have an actual impact (i) on the assets, business, staff, obligations, rights or operations of the PRC Operating Schools and/or the School Sponsor or (ii) on the ability of School Sponsor, the Registered Shareholders and each of the PRC Operating Schools to perform the obligations under the Structured Contracts I. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (1) Business Cooperation Agreement" in the Prospectus for details.

(b) as disclosed above, pursuant to the Exclusive Call Option Agreement, the Registered Shareholders have further undertaken to Xinhua Anhui that, among others, each of them shall not sell, assign, transfer or otherwise dispose of or create any encumbrance over school sponsor's interest in any of the PRC Operating Schools and/or equity interest in the School Sponsor without prior written consent of Xinhua Anhui. See "Structured Contracts – Operation of the Structured Contracts – Summary of the Material Terms of the Structured Contracts I – (3) Exclusive Call Option Agreement" in the Prospectus for details.

(c) the Company has taken measures to ensure that the company seals of the PRC Operating Schools and the School Sponsor are properly secured, are within the full control of the Company and cannot be used by the School Sponsor or the Registered Shareholders or the PRC Operating Schools without the permission. Such measures include arranging for the company seals of the PRC Operating Schools and the School Sponsor to be kept in the safe custody of the finance department of Xinhua Anhui and setting up lines of authority for using the company seals, financial chops and business registration certificates such that the company seals, financial chops and business registration certificates can only be used under direct authorization of the Company or Xinhua Anhui.

(11) Loan Agreement

Pursuant to the Loan Agreement, Xinhua Anhui agreed to provide interest-free loans to Xinhua Group in accordance with the PRC laws and regulations and Xinhua Group agreed to utilize the proceeds of such loans to contribute as capital of the PRC Operating Schools in its capacity as school sponsor of the schools in accordance with the instructions. Both parties agree that all such capital contribution will be directly settled by Xinhua Anhui on behalf of Xinhua Group.

The terms of the Loan Agreement shall continue until all interest of the PRC Operating Schools and the School Sponsor are transferred to Xinhua Anhui or other parties designated by the Company.

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

C. Structured Contracts I and Structured Contracts II

Other than the Spouse Undertakings, each of the specific agreements that comprise the Structured Contracts I contains clauses which provide that, to the extent permitted by the PRC laws, Xinhua Anhui shall have the right to designate other entities agreed by the Company (including any wholly foreign-owned enterprise to be established by us from time to time) to enter into and perform the agreements which are on the same terms and conditions as the Structured Contracts I (excluding the Spouse Undertakings) with the other parties to the Structured Contracts I (excluding the Spouse Undertakings), and the other parties to the Structured Contracts I shall unconditionally procure the signing and performance of such agreements. The Structured Contracts I shall be automatically terminated on the date on which the aforementioned agreements are entered into and become effective.

In light of the preferential tax policy in Xinjiang, on 6 February 2018, Xinhua Xinjiang entered into the Structured Contracts II, the terms and conditions of which are the same as those contained in the Structured Contracts I in all material aspects, pursuant to which the Structured Contracts I were automatically terminated and all economic benefits arising from the business of the PRC Consolidated Affiliated Entities are transferred to Xinhua Xinjiang by means of services fees payable by the PRC Consolidated Affiliated Entities to Xinhua Xinjiang.

D. Business Activities of the PRC Consolidated Affiliated Entities

The business activities of the consolidated affiliated entities of the Group, namely the School Sponsor, Xinhua University and Xinhua School, are primarily to offer higher educational services to the Group's students.

E. Significance and financial contributions of PRC Operating Schools

Pursuant to the Structured Contracts, the Group obtains control over and derives the economic benefits from the PRC Consolidated Affiliated Entities. The table below sets out the financial contribution of the PRC Consolidated Affiliated Entities to the Group, including revenue, net profit and total assets of the PRC Consolidated Affiliated Entities consolidated into the Group's financial statements pursuant to the Structural Contracts:

	Significances and financial contribution to the Group					
	Revenue		Net profit		Total assets	
	For the year ended 31 December		For the year ended 31 December		As at 31 December	
	2019	2018	**2019**	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
PRC Consolidated Affiliated Entities	**437,732**	386,127	**261,004**	247,998	**2,545,333**	1,578,901

The table below sets out revenue and net profit of the PRC Consolidated Affiliated Entities as a percentage of the Group's revenue and net profit:

	Revenue For the year ended 31 December 2019	Net profit As at 31 December 2019
PRC Consolidated Affiliated Entities	**100%**	**96.43%**

F. Regulatory Framework

The Group currently conducts its private higher education business through the PRC Operating Schools in the PRC as PRC laws and regulations generally restrict foreign ownership in the private education industry in the PRC. PRC laws and regulations currently restrict the operation of higher education institutions to Sino-foreign cooperation ownership, in addition to imposing qualification requirements on the foreign owners. The Group does not hold any equity interest in its PRC Operating Schools. The Structured Contracts, through which the Group obtains control over and derive the economic benefits from its PRC Operating Schools, have been narrowly tailored to achieve the Group's business purpose and minimize the potential conflict with relevant PRC laws and regulations. The Group had entered into the Structured Contracts for the existing PRC Operating Schools and expect to enter into structured contracts for the schools to be newly established or invested in, the terms and conditions of which shall be the same as the existing Structured Contracts in all material aspects.

1. *Higher Education and National Key Secondary Vocational School*

   Pursuant to the Foreign Investment Catalog, the provision of higher education in the PRC falls within the "restricted" category. In particular, the Foreign Investment Catalog explicitly restricts higher education to Sino-foreign cooperation, which means the foreign investor shall be an educational institution and shall operate higher education in the PRC through cooperation with a PRC educational institution in compliance with the Sino- Foreign Regulation. In addition, the Foreign Investment Catalog also provides that the domestic party shall play a dominant role in the Sino-foreign cooperation, meaning that (a) the principal or other chief executive officer of the schools shall be a PRC national; and (b) the representatives of the domestic party shall account for no less than half of the total members of the board of directors, the executive council or the joint administration committee of the Sino-foreign cooperative educational institution (the "Foreign Control Restriction").

While secondary vocational education is not listed in the Foreign Investment Catalog, Xinhua School was recognized by the MOE as a National Key Secondary Vocational School* (國家級重點中等職業學校) and therefore was treated as if it falls within the "restricted" category according to the Anhui Education Department.

The Group had fully complied with the Foreign Control Restriction in respect of the PRC Operating Schools on the basis that (a) the principals and the chief executive officers of the PRC Operating Schools are all PRC nationals; and (b) all the members of the board of directors of the PRC Operating Schools are PRC nationals.

In relation to the interpretation of Sino-foreign cooperation, pursuant to the Sino-Foreign Regulation, if the Group was to apply for any of its schools to be reorganized as a Sino-foreign joint venture private school for PRC students (a "Sino-Foreign Joint Venture Private School"), the foreign investor in the Sino-Foreign Joint Venture Private School must be a foreign educational institution with relevant qualification and that provides high quality education (the "Qualification Requirement"). Furthermore, pursuant to the Implementation Opinions of the MOE on Encouraging and Guiding the Entry of Private Capital in the Fields of Education and Promoting the Healthy Development of Private Education* (《教育部關於鼓勵和引導民間資金進入教育領域促進民辦教育健康發展的實施意見》), the foreign portion of the total investment in a Sino-Foreign Joint Venture Private School should be below 50% (the "Foreign Ownership Restriction") and the establishment of these schools is subject to approval of education authorities at the provincial or national level.

The Group's PRC Legal Advisors have advised that there are no implementing measures or specific guidance on the Qualification Requirement in accordance with the existing PRC laws and regulations and therefore it is currently uncertain as to what specific criteria must be met by a foreign investor (such as 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. With the assistance of its PRC legal advisors, the Group consulted the Anhui Education Department on 26 June 2017, being the competent authority as advised by the PRC Legal Advisors to confirm the matters relating to the Sino-Foreign Joint Venture Private Schools relevant to the Group. The Group was advised by the director of the department of foreign affairs office* (外事處處長) at the Anhui Education Department that:

(i) the Foreign Ownership Restriction and Qualification Requirements applies to Sino-Foreign Joint Venture Private Schools in their region;

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

(iii) as a matter of policy, no Sino-Foreign Joint Venture Private School has been approved in Anhui Province after the Sino-Foreign Regulation became effective on 1 September 2003;

(iv) the Anhui Education Department expects that the possibility of approving the establishment of Sino-Foreign Joint Venture Private Schools (including but not limited to the Sino-Foreign higher education institution and Sino-Foreign national key secondary vocational school) in Anhui in foreseeable future is very low; and

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

The Group's PRC Legal Advisors are of the view that the aforesaid officer is competent to provide the confirmation on the basis that they have good and authoritative understanding of the PRC laws and regulations regarding Sino-foreign cooperative education and its actual implementation in Anhui Province.

Given that as at the date of this report, as advised by the PRC Legal Advisors, the Group does not meet the Qualification Requirement as the Group has no experience in operating a school outside of the PRC, and as there are no implementing measures or specific guidance on the Qualification Requirement, it is therefore not practicable for the Group to seek to apply to reorganize any of its PRC Operating Schools and the schools to be newly established or invested by the Group as a Sino-Foreign Joint Venture Private School, or convert any of the PRC Operating Schools and the schools to be newly established or invested by the Group into a Sino-Foreign Joint Venture Private School. The Anhui Education Department has confirmed that the possibility of approving the establishment of Sino-Foreign Joint Venture Private schools in Anhui in foreseeable future is very low.

Notwithstanding the above, the Group is committed to meeting the Qualification Requirement. It has adopted a specific plan and will continue to expend genuine efforts and financial resources to do so. It has undertaken to make periodic inquiries of relevant educational authorities to understand any regulatory developments, including whether there will be any change in policy for approving any Sino-Foreign Joint Venture Private School in Anhui Province, and assess whether it is qualified to meet the Qualification Requirement, with a view to unwinding the Structured Contracts wholly or partially as and when practicable and permissible under the prevailing PRC laws and regulations.

As at the date of this report, the Group has not encountered any interference or encumbrance from any governing bodies in its plan to adopt the Structured Contracts and the consolidated financial results of the PRC Operating Schools are consolidated to those of the Group. The PRC Legal Advisors have opined that each of the PRC Operating Schools and the School Sponsor has been legally established and except for those disclosed under "Structured Contracts – Legality of the Structured Contracts – PRC Legal Opinions" and "Risk Factors – Risks relating to our Structured Contracts" of the Prospectus, the Structured Contracts in relation to the operation of higher education are valid, legal and binding and do not contravene PRC laws and regulations. According to the PRC Legal Advisors, under PRC laws and regulations, the failure to meet the Qualification Requirement and the adoption of the Structured Contracts to operate the schools do not render the Group's education business as illegal operations in the PRC. As disclosed above, the Group has obtained confirmation from the Anhui Education Department during the consultations with them that the Structured Contracts do not require approval from the education authorities. However, no positive regulatory assurance has been obtained from relevant PRC regulatory authorities with respect to the use of the Structured Contracts in the education industry, and it is impracticable to obtain such assurance, as no relevant PRC regulatory authorities have ever issued any regulations, rules or notices to prohibit the use of Structured Contracts in the education industry.

2. *Plan to Comply with the Qualification Requirement*

The Group has adopted a specific plan and begun to take the following concrete steps which it reasonably believes are meaningful endeavors to demonstrate compliance with the Qualification Requirement. According to the consultation with the Anhui Education Department, there are no implementing measures or specific guidance on the Qualification Requirement and they are rarely likely to approve an application to convert the PRC Operating Schools into Sino-Foreign Joint Venture Private Schools at this stage and in the foreseeable future. The Group's PRC Legal Advisors are of the view that based on the understanding of the general provisions of the existing laws and regulations, although it is rarely likely for the Anhui Education Department to approve the Group's application to convert any of its PRC Operating Schools or schools to be newly established or invested by the Group into Sino-Foreign Joint Venture Private Schools at this stage and in the foreseeable future, the following steps taken by the Group to demonstrate compliance with the Qualification Requirements are reasonable and appropriate.

As at the date of this report, the Group had taken the following concrete steps to implement its plan. On 22 August 2017, Xinhua US, a holding company of a new school (i.e., the American College) in the United States, was formed, and it became wholly owned by Xinhua BVI on 24 October 2017. The Group has submitted an application for provisional license for the American College to the CIE on 29 August 2017. On 27 December 2017, the Group received the approval and the provisional license granted by CIE to the American College for a period of one year, which was renewed in March 2019. Under the provisional license, the American College may advertise, recruit students, accept fees and tuition from or on behalf of students and hold classes, but may not actually award a degree or a credential requiring one year or more to earn. The American College must attain an annual license before awarding degrees or other credentials or seeking CIE's approval to add or substantially modify programs or to add locations. American College received annual license granted by CIE in November 2019. In addition, in connection with the Group's application submitted to the CIE for the approval to establish its new school in Florida, on 14 September 2017, the Group and Keiser University in the U.S. entered into an articulation agreement which contains detailed terms of the Group's collaboration with Keiser University for offering bachelor's degree programs at the campus provided by Keiser University where students can earn a degree awarded by the American College after completing such degree programs. The Group has also nominated Mr. Ni Zheng to be the president of the American College, to oversee the administration of its international operations, including Xinhua US. The Group has expended approximately US$16,800 in connection with its plan as at the date of the report.

In the opinion of the Group's PRC Legal Advisors, if both of the Foreign Ownership Restriction and the Foreign Control Restriction are removed but the Qualification Requirement remains and assuming the new school to be operated by Xinhua US, i.e. the American College or another foreign educational institution established by the Group gains a level of foreign experience sufficient to demonstrate compliance with the Qualification Requirement and obtains the approval of the relevant education authorities for the establishment of a Sino-Foreign Joint Venture Private School in the future (provided that the then PRC laws and regulations do not impose new requirements, restrictions, or prohibitions in relation to the establishment of the Sino-Foreign Joint Venture Private Schools), the Group will be able to operate its schools in the PRC directly through the new school to be operated by Xinhua US, i.e. the American College or such other educational institution subject to the approval from the competent education authorities. The Group's PRC Legal Advisors are of the opinion that an educational institution which offers diploma certificates at the university level in a foreign jurisdiction, i.e. the American College to be operated by Xinhua US or such other foreign educational institution subject to the approval from the competent educational authorities established by the Group that acts as the foreign investor for the establishment of a Sino-Foreign Joint Venture Private School for formal higher education is in compliance with the general requirements of the existing PRC laws.

Furthermore, the Group has undertaken to the Stock Exchange that the Group will:

(i) under the guidance of the Group's PRC Legal Advisors, continue to keep the Group updated with regard to all relevant regulatory developments and guidance relating to the Qualification Requirement; and

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

3. *Regulatory Updates – Promulgation of the Foreign Investment Law and its Impact*

The Foreign Investment Law was implemented on 1 January 2020, for further details of the Foreign Investment Law, please refer to "Management Discussion and Analysis - Regulatory Update" in this report. As at the date of this 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.

H. 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 Consolidated Affiliated Entities which engage in the operation of higher education services where the PRC laws and regulations currently restrict operation of 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.

1. *Risks associated with the arrangements*

The PRC government may find that the Structured Contracts do not comply with applicable PRC laws and regulations, which may subject the Group to severe penalties and the Group's business may be materially and adversely affected. Furthermore, the Group relies on the Structured Contracts to obtains control over and derive the economic benefits from the PRC Consolidated Affiliated Entities, which may not be as effective in providing operational control as direct ownership. The registered owners of the PRC Consolidated Affiliated 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 may not be able to meet the qualification requirement, according to which the foreign investor in a Sino-foreign joint venture private school offering high school and higher education institution must be a foreign educational institution with relevant qualification that provides high quality education, holds less than 50% of the capital investment in the Sino-foreign joint venture private School and the domestic party shall play a dominant role. The Group's execution on the option to acquire school sponsor's interest of the PRC Consolidated Affiliated 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 Consolidated Affiliated 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 Consolidated Affiliated Entities may be subject to limitations on their ability to operate private education or make payments to related parties. The Group's ability to distribute dividends to its Shareholders may be limited due to the unclear definition of "reasonable returns" under PRC laws and regulations. Substantial uncertainties exist regarding the interpretation and application of the 2016 Decision, including treatments of schools in the PRC as non-profit schools or for-profit schools. If any of the Group's consolidated affiliated entities becomes subject to winding up or liquidation proceedings, the Group may lose the ability to enjoy certain important assets, which could negatively impact its business and materially and adversely affect its ability to generate revenue. For more details, please refer to the section headed "Risk Factors – Risks relating to our Structured Contracts" in the Prospects.

2. *Actions taken to mitigate the risks*

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

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

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

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

(d) the Company and its Directors undertake to provide periodic updates in its annual and interim reports regarding the Qualification Requirement and its status of compliance with the Foreign Investment Law as stipulated under the section headed "Structured Contracts – Background of the Structured Contracts" and the latest development of the Foreign Investment Law as disclosed under the section headed "Structured Contracts – Development in the PRC Legislation on Foreign Investment", 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 Xinhua WFOE and the PRC Operating Schools and/or the School Sponsor to deal with specific issues or matters arising from the Structured Contracts.

In addition, notwithstanding that the non-executive Director, Mr. Wu Junbao, is also one of the Registered Shareholders, the Group 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 of Association includes provisions to avoid conflict of interest by providing, amongst other things, that in the event of conflict of interest in such contract or arrangement which is material, a Director shall declare the nature of his or her interest at the earliest meeting of the Board at which it is practicable for him or her to do so, and if he or she is to be regarded as having material interest in any contracts or arrangements, such Director shall abstain from voting and not be counted in the quorum;

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

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

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

I. Material changes

Save as disclosed above, as at 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.

J. Unwinding of the Structured Contracts

As at 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), Xinhua WFOE 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.

The Stock Exchange has granted a waiver to the Company from strict compliance with certain requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Structured Contracts II. See "Connected Transactions – Continuing Connected Transactions – Non-exempt Continuing Connected Transactions" in the Prospectus for details.

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

(3) Connected Lease

On 25 December 2018, School of Clinical Medicine, a school jointly operated by the Company and an independent third party, entered into a tenancy agreement ("Connected Lease") with Anhui New East Culinary Institute ("Anhui New East"), pursuant to which Anhui New East (as landlord) has agreed to lease a premise located at Guanjing Road, Xiangshan Road, Professional Education Town, Yaohai District Hefei, Anhui province, the PRC, to School of Clinical Medicine (as tenant) as campus for a term from 1 January 2019 to 31 July 2020 at a monthly rental of RMB600,000. The rental amount was determined based on arm's length negotiations between Anhui New East and School of Clinical Medicine with reference to the prevailing market price of comparable lease.

The Directors are of the view that the transactions contemplated under the Connected Lease are on normal commercial terms.

(4) Confirmation of independent non-executive Directors

The independent non-executive Directors have reviewed the Service Agreements, the Structured Contracts and the Connected Lease (collectively, the "Continuing Connected Transactions") on an annual basis to confirm that, during the relevant financial year:

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

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

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

(5) Confirmation of auditors of the Company

KPMG, the Company's auditors, have carried out procedures annually to report on the Group's Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the Group's 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 2019 are set out in note 26 to the consolidated financial statements.

The related party transactions with regard to the service fee and rental fee paid as set out in note 26 constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

ENVIRONMENTAL PROTECTION AND SOCIAL RESPONSIBILITIES

As the well-known leading provider of higher education, the Group strikes to perform its social responsibilities in each major area for a sustainable basis with no exceptions in the fields of environmental protection. Primarily engaged in providing educational services, the Group regards the environment of materials recycling and energies saving as instrumental and desirable for the Group's business successes. The Group therefore advocates the business model with energy efficiency and linear progressions on establishing environmental friendly teaching and learning systems for the students and the teachers.

During the Group's business operations, students and teachers are monitored by the internal guidelines for saving utilities such as turning off electrical appliances, air-conditioning, idle lightings and the water taps whenever it is likely to incur unnecessary waste of electricity and water resources. In addition, the Group has implemented and promoted the online and digital teaching methods at the classrooms which drastically reduce the possibility of paper waster. As at 31 December 2019, the Group has not been subject to any fines or regulatory or legal sanctions as a result of any non-compliance with the applicable PRC Environmental laws and regulations in any material aspects. Supported by the directors and senior management's long term strategy of sustainable development, the Group will continuously maintain its demanding standard for environmental protections and performance of its social responsibilities to the community. For more details, please refer to our separate Environmental, Social and Governance ("ESG") Report in this annual report.

DONATIONS

During the Reporting Period, the charitable and other donations made by the Group amounted to RMB4,000.

SIGNIFICANT LEGAL PROCEEDINGS

During the year ended 31 December 2019, 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 2019 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.

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 important events occurred since the year ended 31 December 2019 are disclosed in note 28 to the consolidated financial statements.

AUDIT COMMITTEE

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 has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2019.

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 60 to 70 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 as at the date of this report.

AUDITORS

The financial statements have been audited by KPMG who shall retire at AGM and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors will be proposed at the AGM.

RECOMMENDATION TO CONSULT PROFESSIONAL TAX ADVICE

If the shareholders of the Company 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
Wu Junbao
Chairman

25 March 2020

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 2019.

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 Corporate Governance Code as its own code of corporate governance. The Company has complied with all applicable code provisions under the CG Code during the Reporting Period. 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 and the Nomination Committee (together, the "Board Committees"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

All Directors 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 one non-executive Director, three executive Directors and three independent non-executive Directors as follows:

Non-executive Director:
Mr. Wu Junbao

Executive Directors:
Mr. Zhang Ming
Mr. Lu Zhen
Mr. Wang Yongkai

Independent Non-executive Directors:
Mr. Jiang Min
Mr. Yang Zhanjun
Mr. Chau Kwok Keung

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

During the Reporting Period, the Board has met at all times the requirements under rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

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

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 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 attendance record of professional training received by the Directors for the Reporting Period is as follows:

Name of Directors	Nature of continuous professional development programmes [(1)]
Executive Directors	
Mr. Zhang Ming	√
Mr. Lu Zhen	√
Mr. Wang Yongkai	√
Non-Executive Director	
Mr. Wu Junbao	√
Independent Non-Executive Directors	
Mr. Jiang Min *(appointed on 30 September 2019)*	√
Mr. Yang Zhanjun	√
Mr. Chau Kwok Keung	√
Ms. Zhang Kejun *(resigned on 30 September 2019)*	√

Note:

(1) Reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances

Chairman and Chief Executive

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

Mr. Wu Junbao is the chairman of the Board and also the non-executive Director of the Group, responsible for providing opinion and judgment to the Board, while other executive Directors are responsible for the day-to-day management and operation of the Group. As a result, the roles of the chairman and chief executive are separate and performed by different individuals.

Appointment and Re-election of Directors

Each of Mr. Zhang Ming, Mr. Lu Zhen and Mr. Wang Yongkai, being the executive Directors of the Company, has entered into a service contract with the Company for an initial fixed term of three years commencing from 31 October 2018, the Listing Date and the Listing Date, 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 the non-executive Director and independent non-executive Directors has entered into an appointment letter with the Company for an initial fixed term of one year commencing from the Listing Date or 30 September 2019 (as applicable) and will continue thereafter until terminated by not less than three months' notice in writing by served by either party on the other, which notice shall not expire until the end of the fixed term.

Save as aforesaid, none of the Directors has or is proposed to have a service contract or an appointment letter 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 article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and shall then be eligible for re-election at such meeting.

Pursuant to article 84 of 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 despatched 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 2019, four Board meetings and one general meeting were held and the attendance of each Director at the Board meetings is set out in the table below:

Directors	Attended/Eligible to attend the Board meeting(s)	Attended/Eligible to attend the general meeting(s)
Mr. Wu Junbao	4/4	1/1
Mr. Zhang Ming	4/4	1/1
Mr. Lu Zhen	4/4	1/1
Mr. Wang Yongkai	4/4	1/1
Mr. Jiang Min *(appointed on 30 September 2019)*	N/A	N/A
Ms. Zhang Kejun *(resigned on 30 September 2019)*	4/4	1/1
Mr. Yang Zhanjun	4/4	1/1
Mr. Chau Kwok Keung	4/4	1/1

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. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he has complied with the Model Code during the Reporting Period and up to the date of this annual report.

At the same time, 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) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(b) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(c) developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors;

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

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

(f) reviewing and monitoring the Company's compliance with the Company's whistleblowing policy.

BOARD COMMITTEES

Audit Committee

The Audit Committee comprises three members, two independent non-executive Directors namely Mr. Chau Kwok Keung (chairman) and Mr. Jiang Min, and the non-executive Director namely Mr. Wu Junbao.

The principal duties of the Audit Committee include the following:

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

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

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 2019, two meetings were held by the Audit Committee. The individual record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of the Directors	Attendance/Number of committee meeting(s)
Mr. Chau Kwok Keung (Chairman)	2/2
Mr. Wu Junbao	2/2
Mr. Jiang Min *(appointed on 30 September 2019)*	N/A
Ms. Zhang Kejun *(resigned on 30 September 2019)*	2/2

The Group's unaudited financial results for the six months ended 30 June 2019 and the audited annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee, which was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The audit committee has also reviewed the accounting principles and practices adopted by the Group, and selection and appointment of the external auditors. In addition, the audit committee reviewed the internal control of the Group and oversaw the risk management and internal control systems of the Group during the year of 2019.

Nomination Committee

The Nomination Committee currently comprises three members, including the non-executive Director namely Mr. Wu Junbao (chairman) and two independent non-executive Directors namely Mr. Jiang Min and Mr. Yang Zhanjun.

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.

During the year ended 31 December 2019, one meeting was held by the Nomination Committee. The individual record of each member of the Nomination Committee at the meeting of the Nomination Committee is set out below:

Name of the Directors	**Attendance/Number of committee meeting(s)**
Mr. Wu Junbao (Chairman)	1/1
Ms. Zhang Kejun *(resigned on 30 September 2019)*	1/1
Mr. Jiang Min *(appointed on 30 September 2019)*	N/A
Mr. Yang Zhanjun	1/1

During the Reporting Period, 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. Jiang Min (chairman) and Mr. Yang Zhanjun, and the non-executive Director namely Mr. Wu Junbao.

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 2019, one meeting was held by the Remuneration Committee. The individual record of each member of the Remuneration Committee at the meeting of the Remuneration Committee is set out below:

Name of the Directors	**Attendance/Number of committee meeting(s)**
Mr. Jiang Min (Chairman) *(appointed on 30 September 2019)*	N/A
Mr. Wu Junbao	1/1
Mr. Yang Zhanjun	1/1
Ms. Zhang Kejun *(resigned on 30 September 2019)*	1/1

During the Reporting Period, the Remuneration Committee reviewed the remuneration packages of the Directors and senior management.

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 21 to 27 of this annual report, for the year ended 31 December 2019 are set out below:

Remuneration band	Number of individual
NIL – HK$1,000,000	7
HK$1,500,001 – HK$2,000,000	1
HK$2,000,001 – HK$2,500,000	2
HK$5,500,001 – HK$6,000,000	1

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 2019 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 page 95 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Board conducts review of the effectiveness of the risk management and internal control system of the Group periodically and noted that the Company has established a risk management and internal control department and each of the schools has designated the relevant personnel who will be responsible for monitoring our on-going compliance with the relevant PRC laws and regulations that govern the business operations and overseeing the implementation of any necessary measures. In order to comply with the relevant requirements under the CG Code in relation to the risk management and internal controls, the Company has established an internal audit department for the purposes of simultaneous updates between the corporate governance and the CG Code and continuously improving the effectiveness of the Company's risk management and internal controls. In addition, the Company has adopted a set of internal rules and policies governing the conduct of the employees, including teachers and personnel performing other functions, and also set up a monitoring system to implement anti-bribery and anti-corruption measures so as to ensure that our employees comply with our internal rules and policies as well as the applicable laws and regulations. Therefore the Board considered the risk management and internal control system is effective and adequate.

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 2019 was approximately as follows:

Type of Services	Amount (RMB'000)
Audit services	1,800
Non-audit services	–
Total	1,800

COMPANY SECRETARY

Mr. Wong Yu Kit as the company secretary of the Company, a vice president of SWCS Corporate Services Group (Hong Kong) Limited, a company engaged in the business of providing corporate services, 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. His primary contact person of the Company is Mr. Wang Yongkai, an executive Director.

For the year ended 31 December 2019, Mr. Wong Yu Kit 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 chairperson 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.chinaxhedu.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 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wan Chai, Hong Kong.

CHANGE IN CONSTITUTIONAL DOCUMENTS

The Company has adopted the amended and restated memorandum of association on 8 March 2018 with immediate effect and articles of association on 8 March 2018 with effect from the Listing Date. There was no change in the memorandum and articles of association of the Company during the Reporting Period and up to the date of this annual report.

ABOUT THE REPORT

The environmental, social and governance report (the "Report") has been published by China Xinhua Education Group and its subsidiaries (the "Group" or "we") every year since 2017 in accordance with the disclosure requirements of the Environmental, Social and Governance Reporting Guide (the "Guide") set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Report discloses the policies, specific work, future planning, quantitative performance and other matters in relation to environmental, social and governance issues for the period from 01-01-2019 to 31-12-2019 (the "Year" or "Reporting Period"), under the sustainability philosophy. In addition, for gaining more understanding of the governance of the Group, please see the section headed "Corporate Governance Report" in the annual report.

Scope of the Report

The Group collects environmental key performance indicators ("KPIs") of two schools operated by it, namely Xinhua University and Xinhua School (the "Schools"), as well as its social KPIs of the Group. We will use historical data for meaningful comparisons and comply with the reporting principles of "quantitative" and "consistency".

Information and Feedback

We attach great importance to your points of view about the Report. In case of any question or suggestion, please don't hesitate to contact us by the following means.

Address: No. 555 Wangjiangxi Road, High-Tech Development Zone, Hefei City, Anhui Province
Email: xhjtbgs@xhgroup.cn
Tel: 0551-65872266

FOCUS ON SOCIAL CORPORATE RESPONSIBILITY

The Group pays attention to the development and complies with the educational principles and policies of the Communist Party of China (CPC). Meanwhile, it firmly adheres to the school objective of "Education for the People, Education First, and Service for Society", and makes efforts to meet social needs. The Group sees it as its mission to revitalize country and education. We have actively integrated sustainability elements into our operations or decisions, and have inspired other peers as the role of the largest private higher education provider in the Yangtze River Delta.

Environmental, Social and Governance Working Group

In 2017, the Group established the environmental, social and governance working group ("ESG Working Group"), which is an important step for environmental, social and governance ("ESG") management. The ESG Working Group will report on ESG work and put forward improvement suggestions to the Board at regular meetings. It will also convey the decisions of the Board to all departments and monitor whether they meet the expectations of the Board.

In terms of risk management, the Board will regularly identify ESG risks for the Group based on external and internal factors, and mitigate various types of risks by establishing appropriate and effective ESG risk management and other relevant policies.

Stakeholder Engagement

We have effective stakeholder engagement through the following methods, collecting their expectations and requests on different topics, and will adopt certain feasible and effective suggestions for the daily operation of the Group in the future:

Main Stakeholder	Expectation and Request	Main Engagement Method
Government/Industry association	• Compliant operation • Sustainable development	• Consultation • Industry activities • Lectures • Scores to the Schools • Tours to the Schools
Shareholder/Investor	• Enrollment of students and teachers • Performance • Effective policies and measures	• Annual general meeting and other shareholders' meetings • Interim reports and annual reports • Corporate communications, such as letter or circular to shareholders and meeting notice • Results announcements • Shareholder's visits • Investor meetings • ESG meetings • Face-to-face meetings
Teachers/Other employees	• Training and development • Benefits • Career development • Healthy and safe working environment	• Employee opinion surveys • Channels for employees to express their opinions (forms, suggestion boxes, etc.) • Performance appraisals • Panel discussion • Face-to-face meetings • Performance interviews • Business presentation • Special advisory committee/special discussion group • Seminars/workshops/lectures • Journals (e.g., employee communications) • Communication conferences • Employee Intranet
Students/Parents	• Teaching quality • Qualification of teachers • School brand	• Feedback in the classes • Satisfaction surveys • Regular visits • Education fair • Parents' meetings • Online platforms • Telephone • E-mail

Main Stakeholder	Expectation and Request	Main Engagement Method
Alumni	• Latest development of the Group	• Media information • School website • Alumni gatherings • Alumni activities organized by the Schools
Community/Non-governmental organizations (NGO)	• Community investment • Participation in community activities	• Volunteering activities • Donations • Education fund/scholarship • Community activities • Seminars/workshops/lectures • Meetings
Green group	• Green campus • Resource conservation • Consumption reduction	• Environmental education • Disclosure of environmental information • Green teaching • Working group
Business partner	• Latest development of the Group • School brand	• Strategic cooperation projects • Exchange activities • Education fair • Meetings • Visits • Lectures
Media	• Students and teachers to win awards • School brand	• News release • Press conferences • Interviews with senior management • Results announcement

After communicating with stakeholders, we will determine that the Report shall cover four major aspects, namely "Focus on Employee Development", "Focus on Operational Strategies", "Focus on Environment" and "Focus on Community Development", and present ESG initiatives during the Year.

FOCUS ON EMPLOYEE DEVELOPMENT

We seize the opportunities arising from China's economic development and market demand of professionals and technicians, cherish the contribution of faculty members to the Group, and strive to create a competitive and satisfactory working environment. During the Year, faculty members of the Group won 33 prizes in provincial and municipal competitions in terms of excellent papers, teaching software, courseware and excellent courses, representing an increase of 12% as compared with last year, reflecting further improvement in the teaching level of the faculty members.

We will strictly comply with the Labour Law of the People's Republic of China, the Labour Contract Law of the People's Republic of China, the Provisions on the Prohibition of Child Labour and the Regulation on Work-Related Injury Insurance and other employment-related laws and regulations. No violations were found during the Reporting Period.

Recruitment Principle

As an educational institution, the Group will respect the different cultural and educational backgrounds of its faculty members, and actively recruit foreign teachers to promote the educational internationalization. The Schools shall standardize the recruitment, employment, new employee induction and probation management in accordance with the Recruitment Management Rule of Anhui Xinhua University* (《安徽新華學院招聘管理規定》). We will recruit suitable candidates through interviews and professional skills assessment openly, equally and fairly, regardless of factors such as gender, disability, pregnancy, family status, race, religion, age (other than lawful age), sexual orientation, nationality, etc., so as to build a diversified and anti-discrimination employment environment with equal opportunity.

In order to comply with labour standards, the personnel department will also be responsible for collecting and checking the qualifications and identity certificates of the employed persons before the employment, so as to ensure that there is no falsification of qualification or employment of child labour. In order to protect the rights and interests of both parties, comply with the Labour Contract Law of the People's Republic of China and avoid forced labour, we will sign employment agreements or contracts, including contents of duties, working hours and holidays, with employees. During the Reporting Period, no child or forced labour was employed by us.

We also attach importance to the professional ethics of our employees. If serious violations by employees are found, the Group reserves the right to dismiss the employees. Employees may tender their resignation, but shall ensure proper handover within the notice period. We will also arrange resignation interviews to understand the reasons.

Benefits

In order to regulate the management of benefits of faculty members, effectively stimulate their enthusiasm and enhance their cohesion, we will act according to the Implementation Measures for the Management of Benefits of Faculty Members at Anhui Xinhua University* (《安徽新華學院教職員福利管理實施辦法》). In addition to rest days, employees are entitled to statutory holidays, marriage leave, funeral leave, maternity leave, etc. In addition, the Group will make contributions to the social insurance funds and the housing provident fund for all eligible employees, i.e. "Five Insurance Funds and One Housing Provident Fund".

The following are additional benefits provided by the Group:

- Holiday allowance
- Marriage benefit
- Commercial insurance
- Mobile phone allowance
- Meal allowance
- Check up
- Dormitory (one-year free on-campus housing for employees who do not have a house)
- School shuttle bus
- Team activity funds

Employee Activities

- The Schools carried out the activity with the theme of "Ardent on May Day, Grateful on Mother's Day", in which 40 faculty members and their families participated in the manual clay sculpture and the hand-making of preserved flowers, thus strengthening opportunities for parent-child communication.

– The Schools organized the Teacher's Day activity with the theme of the "Celebrate the 70th Anniversary of the Motherland and Promote the Fashion of Respect for Teachers in the New Era", with over 200 participants, in which 47 loyal educators were commended and 15 "Beautiful Teachers" were rewarded. The activity emphasizes the teachers' heavy responsibility for making solid progress when shouldering the task.

– A meeting was arranged at the beginning of the semester, at which the leaders lead all employees in the new semester and provide good communication.

– Employees can communicate with the management on the intranet platform

Remuneration

The Schools will regularly organize internal promotion, for which the leaders of the Group and the Schools will openly select the current faculty members with good performance, experience and qualifications. They will also formulate salary strategies and review the annual salary structure according to factors including the development of the Group, market situation, pay grade and job value.

Talent Development

We focus on personnel training, insist on putting moral education and ability first, carry out the education philosophies of "Development of a Good Moral Character, Establishment of a Career, and Personhood", and pursue education with occupation and service oriented. Based on the six core qualities, namely humanistic connotations, scientific spirit, learning ability, healthy life, responsibility, and practice and innovation, we will foster high-quality applied talents with considerable academic attainments, the spirit of innovation, international vision and development potential.

Each organization will select excellent employees to participate in investigations related to management and professional skills outside the Group. This opportunity will help broaden their horizons and teach their students what they have learned and seen. During the Year, we carried out plans including contest on presentation of teaching design, enrollment and school development, students' management, class advisors for new students and information-based teaching for all faculty members. They can exchange views with each other and strive to improve the quality of teaching and their competitiveness.

During the Reporting Period, the Schools organized a total of 90 internal training sessions, with 26 more than originally planned. We have also selected managers and key teachers of various types to participate in 21 external training sessions, with 198 participants. In the future, we will continue to adhere to the philosophy that all faculty members and all employees shall receive training according to their duties and take the increase in training types and hours as our goal.

Annual Training Highlights

– We arranged more than 30 employees to study in the Party Spirit Education Hall of the Party School of Anhui Provincial Committee of CPC to exchange teaching methods and enhance their awareness of the Party Spirit

– We organized a series of training activities for the new employees with the theme of "Work Together, Build Your Dream at Xinhua"

– In order to improve the cohesion and execution of the team, the Schools organized outward bound training with the theme of "Forge ahead Despite Twists and Turns, Jointly Make Remarkable Achievements" in December

Health and Safety of Campus

The Schools adhere to the "People-oriented" principle and pay attention to the health of its faculty members through regular check-up. The Schools have an infirmary to protect the health of faculty members and students at all time. During the Reporting Period, no work-related injuries or deaths occurred at the Group.

Psychological Education Consultation

The Schools have a psychological counseling room, which has 6 teachers qualified as psychological counselors. With rich experience, they are able to solve the psychological problems encountered by teachers and students in their study, life and work, in a timely manner. In addition, the Schools will offer psychological health education courses. In this year, Professor Wang Furong (王芙蓉) of Anhui Agricultural University will be specially invited to offer the "Enneagram and Efficient Implementation"* (《九型人格與高效執行》) course to faculty members, so that they can effectively relieve pressure, vent their frustration and relax. We have established a psychological committee for each class to organize safety training, unblock communication channels between teachers and students and improve reporting mechanisms, thus eliminating potential safety hazards and preventing critical incidents in a timely manner.

Student Health

The hygiene of the Schools directly affects students' learning and living environment, and draws the attention of leaders of the Schools. The general affairs departments organize the general cleaning of the Schools (i.e. public areas, classrooms and dormitories) every week for disinfection and cleaning of blind spots and areas where vectors exist. After each inspection, the general affairs departments will report the results to the campus heads and class advisers for rectification in a timely manner. Furthermore, disease prevention and control work has always been one of key tasks of the Schools. The general affairs departments will be responsible for leading the campuses to carry out various forms of disease prevention and publicity activities. The Schools vigorously advocate a scientific, healthy and civilized lifestyle. Meanwhile, we will carry out a series of safety education activities including anti-smoking education, legal education, education for minors, "Five-prevention" education, pre-holiday safety, and practical training safety for a long time.

With regard to food safety, the Schools have made an emergency response plan for student food poisoning accidents, so as to handle cases according to established procedures. In addition, the canteen will support the general affairs department of Xinhua University in regular inspections and hold student canteen meetings to ensure the food safety of students and avoid unexpected incidents.

Fire Protection and Safety

In order to ensure all-round safety and zero accidents in schools, schools will formulate detailed plans related to fire fighting and safety, including the following tasks:

- Hold safety work meetings regularly;
- Prepare and print the Safety Education Manual for New Students* (《新生安全教育讀本》) and the Entrance Education Guide for New Students* (《新生入學教育指南》);
- Carry out earthquake prevention and fire safety drills regularly to improve students' safety protection skills; and
- Improve the safety awareness of teachers and students through a series of safety meetings including regular campus meetings, broadcast meetings, daily morning meetings, weekend law lecture, class meetings, etc.

FOCUS ON OPERATIONAL STRATEGIES

The Group is very determined to develop education and strives to provide more young people with equal opportunities to receive education. It has played a huge role in improving the quality of workers, promoting employment, upgrading service industries and economic transformation, etc. Therefore, we have won the recognition and praise from governments at all levels and the society, thus improving our brand and popularity continuously.

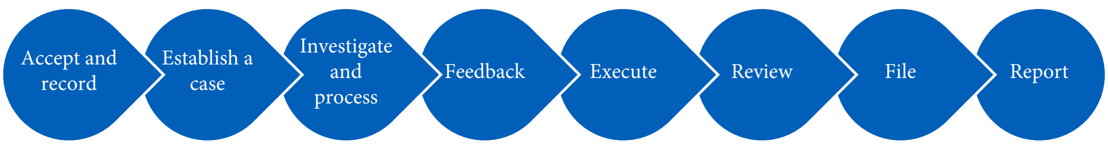
Compliance Operation

The Group attaches great importance to employees' honest practices and strictly complies with the Anti-Money Laundering Law of the People's Republic of China, the Anti-Corruption Law of the People's Republic of China, the Criminal Law of the People's Republic of China and other relevant laws and regulations. There were no convicted corruption cases against the Group or its employees during the Reporting Period.

The Group has formulated the "Rules on the Integrity Promotion Management of Anhui Xinhua Investment Group"* (《新華投資集團廉政建設管理規定》) and the "Management System for Handling Legal Disputes of Xinhua Group"* (《新華集團法律糾紛應對工作管理制度》), which specify the behavioral norms to which employees at different levels are subject, so as to avoid bribery, extortion, fraud and anti-money laundering. In addition, the Group has implemented the responsibility system of integrity management, and will hold the violating employees liable, according to the seriousness of the case.

Reporting Procedures

The Group has formulated the "Rule of Xinhua Group on Management of Complaints and Reports"* (《新華集團投訴舉報管理規定》). The whistle blower who finds an event within the scope of complaints and reports specified in the rule and other violations may make an anonymous and non-anonymous complaint through tip-off hotline, tip-off box, tip-off letter, visit, etc.



In the rule, we have clearly defined the responsibilities of departments in the reporting process. We also need to ensure that relevant information is thoroughly collected before conducting investigation and handling, and then analyze individual cases from multiple angles to ensure fair and objective results. According to the results, we will appropriately punish violators and reward whistle blowers respectively, and all data and results of handling will be collated and filed. If whistle blowers or punished employees have an objection to the handling result, further investigations may be carried out, and new opinions on handling may be issued.

Protective Measures

In order to reduce risks, we will implement the following measures:

- All employees will be organized to learn the contents related to integrity promotion every year;
- Employees will be organized to carry out self-inspection for integrity practices every year;
- Explain the integrity system to partners and sign an "Integrity Undertaking"* (《廉政承諾書》) with them;
- The audit and supervision department of the Group will regularly amend and update relevant policies in line with the market and industry development;

- Summarize the data and results of handling, and submit them to the chairman for review regularly;

- Link the results of the assessment of the integrity building of managers at all levels to the performance evaluation and appointment; and

- In the case of major violations, the president's office of the Group will be responsible for making a judgement, etc.

Quality Assurance

We have operated in accordance with the Education Law, the Higher Education Law, the Provisions on the Administration of Students in Regular Institutions of Higher Education and relevant laws and regulations. We also plan to offer more courses in the future to provide professional and satisfactory teaching services to benefit more young people.

Communication

We focus on having good and frequent communication with parents of students. Each college will organize a briefing session at the beginning of the semester so as to gather students, parents and teachers for interactive communication and to answer their concerns carefully. The class advisers will also make phone calls and send text messages from time to time to communicate with parents about the students' performance in the Schools and maintain good home-school liaison. Teachers also regularly share their communication skills with the children in the group of parents from a professional perspective to ensure the healthy growth of students under the education of both parents and schools. In addition, the Schools pay special attention to the safety of students when they leave the Schools for long holidays. We will keep records to ensure that students will contact their parents before and after leaving the Schools. In special circumstances, students are even required to report their home arrival to the Schools.

Degree of Praise for Teaching

The Group performed well, with the degree of praise reaching 98.85% for the Year. Every year, the management regularly convenes an initiation and summarization meetings to teachers and employees to summarize the achievements made in prior years and plan the future development of the Group. According to the National Standard of Teaching Quality for Undergraduate Majors at Regular Institutions of Higher Education and the Opinions on Speeding up the Construction of High-level Undergraduate Education to Improve Talent Development Ability in an All-round Way published by the Ministry of Education, we have formulated the "Implementation Measures for the Monitoring and Assurance of Teaching Quality in Anhui Xinhua School"* (《安徽新華學院教學質量監控與保障實施辦法》), to implement comprehensive and whole-process teaching quality management of all employees, promote the continuous improvement in teaching work and promote the continuous reform of education and teaching, thus forming a long-term mechanism for standardized teaching management, and ensuring continuous and stable improvement in the teaching quality of the Schools.

The Schools have established a working committee to monitor and assure the teaching quality so as to monitor and assure the teaching quality. The committee is responsible for monitoring and assuring the teaching quality, making annual plans, providing guidance, conducting evaluations, etc. In order to effectively measure and evaluate the teaching effect, it will arrange regular, special and random inspections. The whole-process follow-up and inspection of the teaching work comprehensively show the completion and quality of teaching work of the teachers, mobilize the enthusiasm of teachers, help the teachers find their problems in a timely manner, and continuously improve their teaching level and promotes their comprehensive development.

Electronic Teaching Plan

Teachers will first determine the teaching objectives and results so as to formulate targeted teaching plans and implement teaching activities. Some courses are taught, using multimedia classrooms or by electronic teaching methods including electronic courseware, brief, slide and video, so as to improve the level of education and information-based teaching.

Complaint Handling

The Group has achieved the target set last year and did not received any complaints about educational services during the Year. In order to safeguard the legitimate rights and interests of students, we have formulated the "Measures of Anhui Xinhua School for Handling Students' Complaints"* (《安徽新華學院學生申訴處理辦法》), to handle all kinds of complaints in accordance with established procedures. The complaint handling committee established by the Schools will be responsible for collecting relevant information, conducting fair and open investigations and presenting appropriate results.

Assurance of Information Security

Student information and internal information are important assets of the Group. The "Rules of Xinhua Group on Confidentiality Management"* (《新華集團保密工作管理規定》) formulated by the Schools can safeguard the interests and operation safety of organizations, ensure the confidentiality of secrets of the organization and facilitate the rational use of work and information resources. The Group will first classify the information according to the confidentiality level, and will implement corresponding measures to mitigate the risk of information leakage. Classified information of each department will be kept by a special employee at a special cabinet. Classified information shall be read at a designated area, subject to the approval of a responsible person, and shall not be lent or copied. With regard to the destruction of classified information, relevant persons shall prepare a destruction list, and the destruction shall be supervised by the two persons with the approval of the responsible person. Employees shall not externally provide classified information of the organizations unless approved by the responsible person, and in addition, the provision of important data shall be subject to the approval by leaders of the Group. We pay attention to the risk of information leakage when computer equipment is scrapped. Before disposing of computers storing classified information, technicians should ensure that the data have been completely deleted. The Group will arrange annual audit, supervision and related training, while the supervision department of each organization is responsible for daily inspection to find and correct problems in a timely manner and strengthen the awareness of assuring information security.

Management of Scientific Research Projects

The level of scientific research is one of the priorities of the Schools. We will strictly comply with the Intellectual Property Law of the People's Republic of China. During the Reporting Period, we had 51 new patents and maintained 154 registered patents. We will apply for patents for eligible inventions and extend the patent term. We will also strictly monitor patented products in the market to avoid infringing or copying patents of other persons. In addition, the Schools have cooperated with third parties in projects, and the interests of both parties are ensured in accordance with the provisions of the Management Measures for Scientific Research Projects of Anhui Xinhua University.

Publicity of the Group

The Group will provide course publicity materials of each college in strict compliance with the Advertising Law of the People's Republic of China. Personnel of relevant departments will review the information before publication, to ensure that there are no wrong or misleading information. In addition, the use or disclosure of relevant information is not allowed, without approval.

Supply Chain Management

The Group will cooperate with suppliers with sustainable development, while major suppliers provide products and services such as teaching materials, electronic equipment and laboratory equipment. In order to standardize the purchase work of the Group, the "Purchase Management System of Xinhua Group"* (《新華集團採購工作管理制度》) and the "Management Measures of Xinhua Group for Selection and Evaluation of Suppliers"* (《新華集團採購部供應商選擇與評估管理辦法》) have been formulated. We advocate the principle of "First Purchased, First Used" and will purchase an appropriate amount of goods and services to avoid waste or generation of a large amount of waste. In terms of relieving environmental risks, we also attach importance to whether suppliers can provide products and services with the lowest impact on the environment, and will give priority to environmentally friendly products. In terms of relieving social risks, we will not choose suppliers who commit immoral behaviors, bribery, corruption and violation of other local and international laws and regulations.

In addition, we have implemented the following related implementation and monitoring methods for practical management:

- When the supplier's behavior is found to be inconsistent with the Group's policies and expectations, we will stop our cooperation with the supplier until improvement is made;

- The purchase departments of the Group and organizations will establish a high-quality supplier base and strictly review the admission of a supplier;

- The supplier evaluation will be conducted once a year; the evaluation of a supplier who has a cooperative relationship with the Group during the year will be arranged. The evaluation information shall also be filed;

- Suppliers who violate regulations will be recorded in the blacklist or watch list of suppliers of the Group;

- The Group will sign contracts and the Integrity Responsibility Letter* (《廉政責任書》) with suppliers; and

- Comply strictly with the acceptance processes and other rules

FOCUS ON ENVIRONMENT

The Group has adhered to the philosophy of being engaged in education while being responsible for the environment, and has paid attention to the impact of its operations on the environment. During the Reporting Period, we did not violate laws and regulations in relation to the environment including the Energy Conservation Law of the People's Republic of China or the Environmental Protection Law of the People's Republic of China.

Environmental Performance Overview

As an educational institution, we have always paid attention to the impact of the environment on the society and actively participated in environmental protection activities to develop teachers' and students' awareness of environmental protection. In order to show our attention to environmental protection, we will transparently disclose and strictly monitor our performance on environmental KPIs including carbon emissions on the platform and will make proper preparation for setting a target in the future.

GHG Inventory

Since 2017, the Group has conducted the GHG inventory for Xinhua University and Xinhua School according to the Greenhouse Gas Protocol developed by the World Resources Institute and the World Business Council for Sustainable Development as well as the ISO14064-1 set by the International Organization for Standardization. In order to enable the Group to deploy and set strategic goals for energy conservation and emission reduction to combat climate change in the next few years, not only we updated the calculation method of GHG emissions this Year, we also included more types of sources to calculate the GHGs to reflect emissions of the Group during operations. The summary of GHG emissions during the Reporting Period is as follows:

GHG Emissions Summary	Unit	2018^	2019
Direct GHG emission (Scope 1)	tCO_2e	680.77	643.06
GHG (Scope 1) reduction due to tree planting	tCO_2e	16.05	776.25#
Indirect GHG emission (Scope 2)	tCO_2e	9,794.38	11,716.42
Other indirect GHG emission (Scope 3)	tCO_2e	2,223.47*	10,949.89@
Total GHG emissions	tCO_2e	12,682.57	22,533.12
GHG Emission Intensity			
GHG emission per square meter	tCO_2e per square meter	0.03	0.05
GHG emission per employee and student	tCO_2e per employee and student	0.36	0.74

Scope 1: Direct GHG emissions from sources owned and controlled by the Group.

Scope 2: GHG emissions indirectly from the generation of electricity, heating and cooling, or steam purchased by the Group.

Scope 3: Emissions including GHG emissions directly generated by sources that are not owned or directly controlled by the Group but relate to business activities of the Group.

^ Updated the GHG emissions figure in 2018 (01/01/2018 – 31/12/2018)

* The updated data Scope 3 during the Reporting Period included more categories of GHG emissions, including the Group's water consumption during business operations, business air travel by employees, waste landfill, sewage treatment and paper use

Total number of trees in the campus are measured this Year

@ The Scope 3 emissions increases due to the increased measurement of canteen waste, food waste, general waste and waste from takeaway in 2019

GHG emissions include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbon (PFCs) and sulfur hexafluoride (SF_6), and can be divided into direct emissions (Scope 1): fuel consumption of fixed equipment, and vehicles of the Group; indirect emissions (Scope 2): electricity consumption during operation; and other indirect emissions (Scope 3): emissions from air travel of employees for business trips, use of water, wastewater treatment, landfill and paper consumption. A total of 33,750 trees were planted at the campuses, thus achieving environmental greening and reducing carbon emissions.

During the Year, the total GHG emissions of Xinhua University and Xinhua School were 22,533.12 tCO_2e, with the GHG emission intensity of 0.05 tCO_2e per square meter, 0.74 tCO_2e per students and teachers.

Greening Measures

The Schools attach great importance to water-saving and electricity-saving work, and have published relevant systems. All employees participate in the work and make concerted efforts. Promotional slogans are posted in classrooms, toilets and public areas for constant reminding and development of good habits. Patrols will be arranged on the campuses to check whether the teachers and students turn off the lights before leaving, so as to prevent the phenomenon of "Keeping the Lights on and the taps Running". Moreover, supervisions and inspections of water and electricity consumption will be carried out from time to time in the Schools.

Vehicle Management

Although the Schools provide shuttle service for employees, they will encourage employees to commute by electric vehicles, bicycles, buses or subways to minimize the use of private cars, thus effectively reducing the emissions of automobile exhaust.

We have planned the best route to save fuel consumption effectively. We will arrange regular checks of the vehicles of the Group to replace the aged parts in a timely manner. We will replace our vehicles with more environmentally friendly school buses when appropriate.

Emissions of our new vehicles during the Year are disclosed as follows:

Emission Type	Unit	Quantized Value
Nitrogen oxide (NO_x)	Kg	522.56
Sulfur oxide (SO_x)	Kg	0.88
Particulate matter (PM)	Kg	50.57

The Schools consumed 50,513.25 liters of gasoline and 8,289.43 liters of diesel, travelling with 468,827.00 km in total.

Energy Consumption

In terms of lighting systems, daylight will be used for office areas as far as possible, and office areas are also divided into multiple lighting areas controlled by independent switches. In addition, lighting installations will be regularly maintained and cleaned to improve energy efficiency. At the beginning of the Reporting Period, Xinhua School planned to replace the lighting facilities of teaching buildings. Energy-saving voice-activated and light-controlled lamps have been installed in campus areas that are not frequently used. The Schools have also replaced the ceiling lamps in 3-floor teaching buildings and public areas (walkways, staircases and toilets) and more than 200 lamps in certain classrooms with LED lamps, thus effectively reducing the wattage.

For the air-conditioning system of the office, a temperature limit is set. Only when the temperature is lower than 5 degrees or higher than 30 degrees can air-conditioning devices be used for heating/cooling. Air-conditioning devices not in use should be unplugged to reduce energy consumption. In addition, the air-conditioning system will be installed without exposure to direct sunlight, and sealing strips are used for doors and windows to avoid leakage of cool or warm air. The class advisers will also organize students to clean the air-conditioning filters of the dormitory regularly to practice saving from every detail.

The Schools consumed a total of 16,654.47 MWh this Year, 0.03 MWh per square meter. Although the intensity is the same as last year, the total electricity consumption increased due to the summer training arrangements.

Paper Consumption Management

Paper consumption is unavoidable in the education industry. The Schools have launched an office automation (OA) system to further improve office efficiency and promote daily paperless and information-based work. The system will release information and handle related businesses. Except for printing and distribution of paper documents for special work arrangements, we use the system for work and actively innovate the working mode. Meanwhile, employees can transmit information through QQ group, WeChat group and other electronic communication technologies to reduce the use of paper.

In addition, we have standardized the scope and quantity of printing, and have adhered to the principle of "Avoid and Minimize Printing as far as Possible", so as to create an energy-saving and environment-friendly office atmosphere. We will regularly monitor the printing quantity and set printing limits for users to control the use of paper.

Employees use paper repeatedly or on both sides as far as possible. For documents that must be printed, they will use thin fonts and narrow line spacing as far as possible. Computers and printers have also been set to the default double-sided printing and ink-saving mode.

During the Year, the Schools consumed a total of 7,911.25 reams of A3 and A4 paper with the intensity of 0.26 ream per students and teachers, representing 30.00% increase as compared with last year. The Group understands that it is unavoidable as an educational institution, yet will remind teachers and students regularly to conserve the resources.

Water-saving Management

The Group has no issues in sourcing water that is fit for purpose. It has vigorously advocated the water saving awareness. Direct drinking water system has been used in dormitory buildings and teaching buildings of the Schools, which not only provides convenience for students but also helps reduce the water consumption of students. In addition, all flushing valves in the toilets of Xinhua School are push-button valves as well as water-saving devices. Every month, the general affairs department will arrange for plumbers to check the indoor and outdoor water pipes, so as to quickly repair the leaking pipes, thus preventing the waste of water. Xinhua School continued to gradually replace fire pipelines during the Reporting Period.

During the Year, the Schools consumed a total of 1,226,789.00 m^3 with the intensity of 2.53 m^3 per floor area with 5.00% increase compared with last year.

Wastes Management

We aim to increase the recovery of non-hazardous waste and make full use of waste sorting and recycling bins to recycle waste paper, metals and plastics. We will purchase refillable pens to avoid abandoning the whole pens. The schools increased the measurement of canteen waste, food waste, general waste and waste from takeaway this Year. 6,000.00 tonnes of non-hazardous waste were generated in total, with 0.20 tonnes production per student and teacher. Due to the increased disclosure of waste types, it cannot be compared with the previous year's data.

Electronic products, waste cartridges and other items scrapped by the Schools, including 1,653.00 computers scrapped during the Year, are recycled and reused by recycling companies. In addition, we will choose recyclable toner/ink cartridges and put waste batteries in specific recycling bins to minimize environmental pollution.

FOCUS ON COMMUNITY DEVELOPMENT

The Group advocates giving back and contributing to the society with tangible action. It has donated a total of over RMB100.00 million through Guangcai Program, Project Hope, reconstruction of disaster areas, tuition relief and financial aid for poor students. During the Year, we organized a total of 8 public welfare activities, with 980 participants, thus achieving the healthy and rapid development of the Group.

"Heartfelt Respect the Elderly and Take the Initiative to Help the Elderly"

Established by the Schools, the youth volunteer association carried out volunteer service activities in Wanshou Apartment for the Aged in Baohe District. After arriving at the Apartment for the Aged, the students read newspapers, cut nails, gave a massage to and performed programs for the elderly, played chess, chatted and watched an opera with the elderly, spending a warm afternoon with them. In the process of getting along with and accompanying the elderly, the students felt strongly the desire of the elderly for affection and concern.

Collection of "Pop-top Cans of Love"

The youth volunteer association launched the Pop-top Cans of Love with the theme of "Small Bottles of Love, Carrying the Public Welfare Dream of the Youth" in the Schools, with the participation of all teachers and students of the Schools. They took cans back to their dormitories and offices, and kept small change in cans, to raise dream funds for poor students inside and outside the Schools. A total of 227 cans of love were collected, raising RMB1,316.00.

"We Are Not Alone with You"

On the World Autism Awareness Day, the volunteers of the Schools carried out volunteer service activity with the theme of "We Are Not Alone with You" in Shushan District Chunyu Children's Rehabilitation Centre (春語兒童康復中心). We played games and communicated with children with infantile autism, who are called the "Son of Stars", so as to show our greater understanding of and concern for them. HFBTV interviewed the students in respect of the activity. The volunteer service activity was reported in the program "Shushan Today (今日蜀山)", which was broadcasted through the Finance and Economics Channel (財經頻道) and the Recreation and Sports Expo Channel (文體博覽頻道).

Social Practice Activities of "Go to Rural Areas"

The Schools carried out the following social practice activities of "Go to Rural Areas" in summer, including visit to grass-roots workers, environmental protection research, and respecting the old and caring for the young.

Visit to Urban Grassroots Workers	The "Colourful Life" practice service team of Xinhua School launched the "Visit to Urban Grassroots Workers" activity in Hefei City, Anhui Province, to work and experience life with urban grassroots workers. The activity can make more people understand and realize the quiet contribution of grass-roots workers.
Garbage Classification Investigation	As laws on domestic waste management have been successively amended or promulgated in major cities, China has entered a "mandatory era" of garbage classification. The "Colourful Life" practice service team of Xinhua School entered Lancuiyuan, a pilot housing estate for garbage classification in Hefei, to conduct in-depth investigations into the current situation of waste classification of community residents, for developing the environmental awareness.
Investigation into the Water Quality of Chao Lake	Chao Lake is one of the five largest freshwater lakes in China as well as one of the "three lakes and three rivers" that the state focuses on harnessing. In recent years, the water quality problem in Chao Lake has received extensive attention in the society. The "Colourful Life" practice service team of Xinhua School investigated the water quality of Chao Lake, to speak out for environmental protection.

Educational Activity with the Theme of "Remain True to Our Original Aspiration and Keep Our Mission Firmly in Mind"

In order to thoroughly implement Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era and the spirit of the 19th CPC National Congress, and further promote the volunteer spirit of "dedication, friendship, mutual aid and progress", the youth league committee of the Schools organizes a "Learn from Lei Feng" volunteer service month, every year, under the guidance of the party branch, thus actively spreading warmth and love in society. According to the requirements of the educational activity with the theme of "remain true to our original aspiration and keep our mission firmly in mind", the party branches at the Schools organized teachers who were party members and students who were communist youth league members to carry out the volunteer service activity of respecting and loving the elderly in the community. This has effectively promoted regular and social volunteer service activities, making more and more students join teams including the youth volunteer association, communities of love, volunteer blood donors.

APPENDIX 1: SUSTAINABILITY DATA STATEMENT

Environmental Performance	Unit	2019
Fuel consumption		
Gasoline consumption by the motorcade	liters	50,513.25
Diesel consumption by the motorcade	liters	8,289.43
Natural gas consumption	m^3	176,828.00
Refrigerant consumption		
HCFC-22 refrigerant consumption	kg	55.00
Energy consumption		
Total electricity consumption	MWh	16,654.47
Total electricity consumption intensity (per square metre of floor area)	MWh/m^2 of floor area	0.03
Water consumption		
Total water consumption	m^3	1,226,789.00
Total water consumption intensity (per square metre of floor area)	m^3/m^2 of floor area	2.53
Hazardous waste		
Computers	set	1,653.00*
Non-hazardous waste		
General waste disposal	tonnes	6,000.00
The intensity of non-hazardous waste (per staff and student)	tonnes/capita	0.20
Paper consumption	ream	7,911.25
Paper consumption intensity (per staff and student)	ream/capita	0.26

* All computer sets were sent to recycle

Social Performance

Total workforce (by gender)		
Total employees	no. of people	1,621
Total number of female employees	no. of people	1,029
Total number of male employees	no. of people	592

Social Performance	Unit	2019
Total workforce (by employment type)		
Junior employees	no. of people	1,450
Middle employees	no. of people	135
Senior employees	no. of people	36
Total workforce (by age group)		
Below 30	no. of people	413
Aged 30-50	no. of people	953
Above 50	no. of people	255
Total workforce (by geographical region)		
East China	no. of people	1,621
Employee turnover rate (by gender)		
Employees	%	13.90
Female	%	11.30
Male	%	12.90
Employee turnover rate (by age group)		
Below 30	%	24.30
Aged 30-50	%	8.10
Above 50	%	8.00
Employee turnover rate (by geographical location)		
East China	%	13.90
Percentage of employees participating in training (by gender)		
Female	%	100.00
Male	%	100.00
Percentage of employees participating in training (by employment type)		
Junior employees	%	100.00
Middle management	%	100.00
Senior management	%	100.00
Average training hours completed per employee (by gender)		
Average training hours per female employee	hours	27.00
Average training hours per male employee	hours	24.00
Average training hours completed per employee (by employee type)		
Average training hours per junior employee	hours	44.00
Average training hours per middle management	hours	32.00
Average training hours per senior management	hours	22.00
Occupational health and safety		
Work-related casualties		
Work-related fatalities	no. of people	0.00

APPENDIX 2: INDEX TO THE ESG REPORTING GUIDE OF HONG KONG STOCK EXCHANGE

Indicators			Related Sections
A. Environmental			
A1 Emissions	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Focus on Environment
	KPI A1.1	The types of emissions and respective emissions data.	Greening Measures
	KPI A1.2	Greenhouse gas emissions in total and intensity.	Environmental Performance Overview Appendix 1: Sustainability Data Statement
	KPI A1.3	Total hazardous waste produced and intensity.	Greening Measures
	KPI A1.4	Total non-hazardous waste produced and intensity.	Greening Measures Appendix 1: Sustainability Data Statement
	KPI A1.5	Description of measures to mitigate emissions and results achieved.	Greening Measures
	KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Greening Measures
A2 Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Greening Measures
	KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity.	Greening Measures Appendix 1: Sustainability Data Statement
	KPI A2.2	Water consumption in total and intensity.	Greening Measures Appendix 1: Sustainability Data Statement
	KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Greening Measures
	KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Greening Measures
	KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Not applicable, as the Group's business does not involve any packaging material
A3 The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Greening Measures
	KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Greening Measures

Indicators			Related Sections
B. Social			
B1 Employment	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Focus on Employee Development Recruitment Principle Benefits
	KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Appendix 1: Sustainability Data Statement
	KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Appendix 1: Sustainability Data Statement
B2 Health and Safety	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety of Campus
	KPI B2.1	Number and rate of work-related fatalities.	Health and Safety of Campus Appendix 1: Sustainability Data Statement
	KPI B2.2	Lost days due to work injury.	Health and Safety of Campus
	KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Health and Safety of Campus
B3 Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Talent Development
	KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Appendix 1: Sustainability Data Statement
	KPI B3.2	The average training hours completed per employee by gender and employee category.	Appendix 1: Sustainability Data Statement
B4 Labour Standards	B4	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to preventing child and forced labor.	Recruitment Principle
	KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Recruitment Principle
	KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Recruitment Principle
B5 Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
	KPI B5.1	Number of suppliers by geographical region.	Considering disclosure in the future
	KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Supply Chain Management

Indicators			Related Sections
B6 Product Responsibility	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer, relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Quality Assurance
	KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	As an educational institution, this disclosure is not applicable
	KPI B6.2	Number of products and services related complaints received and how they are dealt with.	Quality Assurance
	KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Assurance of Information Security
	KPI B6.4	Description of quality assurance process and recall procedures.	As an educational institution, this disclosure is not applicable
	KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Assurance of Information Security
B7 Anti-corruption	General Disclosure	Information on the policies, and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Compliance Operation
	KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Compliance Operation
	KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Compliance Operation
B8 Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Focus on Community Development
	KPI B8.1	Focus areas of contribution (e. g. education, environmental concerns, labour needs, health, culture, sport).	Focus on Community Development
	KPI B8.2	Resources contributed to the focus area.	Focus on Community Development

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA XINHUA EDUCATION GROUP LIMITED

(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Xinhua Education Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 102 to 157, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with all applicable 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 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

KEY AUDIT MATTERS (continued)

Revenue Recognition

Refer to Note 4 to the consolidated financial statements and the accounting policy on page 123.

The Key Audit Matter

Revenue comprises primarily tuition fees and boarding fees. The Group's schools generally receive these fees in advance prior to the beginning of each academic year or semester and initially record these fees as contract liabilities. Tuition fees and boarding fees are recognised proportionately over the reporting period of the applicable program.

We identified revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue could be manipulated to meet financial expectations or targets and also because the large volume of transactions processed increases the error in recognising revenue.

How the matter was addressed in our audit

Our audit procedures to assess revenue recognition included the following:

- assessing the design, implementation and operating effectiveness of key internal controls over the admission of students and collection of tuition fees and boarding fees;
- performing recalculation of the amount of contract liabilities and the revenue recognised during the year;
- analysing the revenue recognised during the year against the course fees and the number of students enrolled in the courses;
- on a sample basis, inspecting the evidence of payment of tuition fees and boarding fees from the students; and
- reconciling the enrolled student information of Anhui Xinhua University at the end of the reporting period to the records on the China Credentials Verification website and performing student count on a sample basis to verify the existence of enrolled students.

KEY AUDIT MATTERS (continued)

Income Tax

Refer to Note 7 to the consolidated financial statements and the accounting policy on page 121.

The Key Audit Matter	How the matter was addressed in our audit
As per the historical tax returns filed with the relevant tax authorities, the Group's schools which do not require reasonable returns claimed preferential corporate income tax exemption treatment since their establishment by not paying corporate income tax on the income from the provision of formal educational services. This approach was taken with reference to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules") issued by the Ministry of Education. However, up to the date of this report, no separate policies, regulations or rules have been introduced by the tax authorities in this regard and thus management judgement is required in determining whether the Group's schools are entitled to the applicable preferential tax treatment in the relevant accounting periods. We identified income tax as a key audit matter because management judgement is involved in interpreting the relevant rules and regulation so as to determine whether the Group's schools are entitled to the preferential tax treatment.	Our audit procedures to assess the adequacy of income tax provisions included the following: • discussing with the Group's PRC legal advisors about the tax position taken by the Group, in particular, whether or not the Group's schools are required to pay income tax by their respective tax authorities during 2019 and whether the Group's schools which enjoy such preferential tax treatment are in compliance with applicable laws and regulations in China; • inspecting the confirmation issued by local tax authorities, to identify if the Group's schools are default in tax or in violation of PRC tax laws; and • involving our internal tax specialist to assist us in analysing the eligibility of the preferential tax treatment enjoyed by the Group's schools and assessing the adequacy of income tax provisions.

KEY AUDIT MATTERS (continued)

Impairment Assessment of Intangible Asset with Indefinite Useful Life

Refer to Note 13 to the consolidated financial statements and the accounting policy on page 114.

The Key Audit Matter

As at 31 December 2019, the Group recorded an amount of RMB196.0 million for a school operation right for the School of Clinical Medicine as intangible asset with indefinite useful life. Management performs impairment assessments annually or when indicators of potential impairment are identified. No impairment charge has been recorded during 2019.

In assessing impairment of the intangible asset with indefinite useful life, recoverable amount has been determined by the management using the value in use method, which involves the exercise of significant management judgement and estimation on certain key assumptions and estimates including discount rate and future revenue to estimate the net present value of the future operating cash flows.

We identified impairment assessment of intangible asset with indefinite useful life as a key audit matter because significant management judgement and estimation are involved.

How the matter was addressed in our audit

Our audit procedures to assess impairment assessment of intangible assets with indefinite useful life carried out by the Group included the following:

- with the assistance of our internal valuation specialists, evaluating the methodology adopted by management in the preparation of the value in use calculation with reference to the requirements of the prevailing accounting standards and assessing whether the discount rate applied were within the range adopted by other companies in the same industry;

- assessing the appropriateness of the key assumptions and estimates adopted in the value in use calculation by comparing to the School of Clinical Medicine's future business plans and financial and operational information of other university or school in the Group;

- comparing the actual results for the current year with management's key estimation for the previous year in order to assess the reliability of management's forecasts process;

- obtaining from management sensitivity analyses of the key assumptions and estimates adopted in the value in use calculation and assessing the impact of changes in the key assumptions and estimates to the conclusions reached in the impairment assessments and whether there were any indicators of management bias; and

- evaluating the appropriateness of the disclosure in respect of impairment assessment of intangible assets in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all 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 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 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors 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. This 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.

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

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 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 Frankie C.Y. Lai.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
25 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Note	2019 RMB'000	2018 *(Note)* RMB'000
Revenue	4	**437,732**	386,127
Cost of sales		**(176,511)**	(155,725)
Gross profit		**261,221**	230,402
Other income	5	**115,436**	91,758
Selling and distribution costs		**(7,843)**	(6,196)
Administrative expenses		**(94,212)**	(57,887)
Profit from operations		**274,602**	258,077
Finance costs	6(a)	**(845)**	(85)
Profit before taxation	6	**273,757**	257,992
Income tax	7	**(3,084)**	(1,982)
Profit for the year		**270,673**	256,010
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of the Company		**25,504**	90,626
Other comprehensive income for the year		**25,504**	90,626
Total comprehensive income for the year		**296,177**	346,636
Earnings per share	10		
Basic and diluted (RMB cents)		**16.83**	16.92

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 107 to 157 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 23(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

	Note	2019 RMB'000	2018 *(Note)* RMB'000
Non-current assets			
Property, plant and equipment	11	**467,747**	475,994
Lease prepayments		**–**	87,880
Right-of-use assets	12	**85,323**	–
Intangible assets	13	**206,658**	204,211
Other non-current assets	15	**660,000**	–
		1,419,728	768,085
Current assets			
Trade receivables	16	**2,768**	261
Prepayments, deposits and other receivables	17	**488,198**	13,042
Financial assets measured at fair value through profit or loss	18	**–**	60,242
Cash and cash equivalents	19	**1,382,996**	1,861,671
		1,873,962	1,935,216
Current liabilities			
Loans and borrowings	20	**330,000**	–
Contract liabilities	21	**239,480**	212,810
Other payables	22	**102,058**	101,018
Deferred income		**–**	1,510
Current taxation		**3,872**	3,429
		675,410	318,767
Net current assets		**1,198,552**	1,616,449
Total assets less current liabilities		**2,618,280**	2,384,534

at 31 December 2019

	Note	**2019**	2018
			(Note)
		RMB'000	RMB'000
NET ASSETS		**2,618,280**	2,384,534
CAPITAL AND RESERVES			
Share capital	23	**12,952**	12,952
Reserves		**2,605,328**	2,371,582
TOTAL EQUITY		**2,618,280**	2,384,534

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

Approved and authorised for issue by the board of directors on 25 March 2020.

Zhen Lu
Director

Yongkai Wang
Director

The notes on pages 107 to 157 form part of these financial statements.

for the year ended 31 December 2019

		Attributable to equity shareholders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Exchange reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018		–*	–	110,900	222,569	–	666,456	999,925
Changes in equity for 2018:								
Profit for the year		–	–	–	–	–	256,010	256,010
Other comprehensive income		–	–	–	–	90,626	–	90,626
Total comprehensive income		–	–	–	–	90,626	256,010	346,636
Issuance of ordinary shares through initial public offering, net of issuance costs		3,290	1,034,683	–	–	–	–	1,037,973
Capitalization issue		9,662	(9,662)	–	–	–	–	–
Appropriation to reserves		–	–	–	61,623	–	(61,623)	–
Balance at 31 December 2018 *(Note)*		12,952	1,025,021	110,900	284,192	90,626	860,843	2,384,534
Balance at 1 January 2019		**12,952**	**1,025,021**	**110,900**	**284,192**	**90,626**	**860,843**	**2,384,534**
Changes in equity for 2019:								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**270,673**	**270,673**
Other comprehensive income		**–**	**–**	**–**	**–**	**25,504**	**–**	**25,504**
Total comprehensive income		**–**	**–**	**–**	**–**	**25,504**	**270,673**	**296,177**
Dividends approved in respect of the previous year	23(b)	**–**	**(79,111)**	**–**	**–**	**–**	**–**	**(79,111)**
Equity settled share-based transactions	23(e)	**–**	**–**	**16,680**	**–**	**–**	**–**	**16,680**
Appropriation to reserves		**–**	**–**	**–**	**63,410**	**–**	**(63,410)**	**–**
Balance at 31 December 2019		**12,952**	**945,910**	**127,580**	**347,602**	**116,130**	**1,068,106**	**2,618,280**

* The balance represents an amount less than RMB1,000.

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 107 to 157 part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2019

	Note	2019 RMB'000	2019 RMB'000	2018 *(Note)* RMB'000	2018 *(Note)* RMB'000
Operating activities					
Cash generated from operations	19(b)	**155,404**		294,641	
Income tax paid		**(2,641)**		(950)	
Net cash generated from operating activities			**152,763**		293,691
Investing activities					
Payment for the purchase of property, plant and equipment		**(56,468)**		(39,773)	
Proceeds from sale of property, plant and equipment		**1,286**		151	
Payment for purchase of intangible assets		**(5,341)**		(4,709)	
Prepayment for investments		**(1,223,286)**		–	
Repayment from investments		**316,000**		–	
Repayment to related parties		**–**		(511)	
Payment for purchase of financial assets measured at fair value through profit or loss		**–**		(2,400,500)	
Proceeds from sale of financial assets measured at fair value through profit or loss		**60,627**		2,592,249	
Net cash (used in)/generated from investing activities			**(907,182)**		146,907
Financing activities					
Issue of ordinary shares through initial public offering, net of issuance costs		**–**		1,037,973	
Proceeds from bank loans		**435,000**		35,000	
Repayment of bank loans		**(105,000)**		(35,000)	
Borrowing costs paid		**(649)**		(85)	
Dividends paid to equity shareholders of the Company		**(79,099)**		–	
Net cash generated from financing activities			**250,252**		1,037,888
Net (decrease)/increase in cash and cash equivalents			**(504,167)**		1,478,486
Cash and cash equivalents at 1 January			**1,861,671**		293,023
Effect of foreign exchange rate changes			**25,492**		90,162
Cash and cash equivalents at 31 December	19(a)		**1,382,996**		1,861,671

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

The notes on pages 107 to 157 form part of these financial statements.

1 GENERAL INFORMATION AND THE BASIS OF PRESENTATION

China Xinhua Education Group Limited (the "Company") was incorporated in the Cayman Islands on 30 August 2017 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company and its subsidiaries (together, the "Group") are principally engaged in the formal higher and secondary vocational education business in the People's Republic of China (the "PRC").

Pursuant to a group reorganisation completed on 31 October 2017 (the "Reorganisation") to rationalise the Group's structure in preparation for the public offering (the "Offering") of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group. The Company's shares were listed on the Stock Exchange on 26 March 2018 (the "Listing Date").

Prior to 31 October 2017, the Group's higher and secondary vocational education business was conducted through Anhui Xinhua University ("Xinhua University"), Anhui Xinhua School ("Xinhua School") and Anhui Xinhua Group Investment Co., Ltd ("Xinhua Group") (collectively, the "PRC Operating Entities"), which were ultimately owned and controlled by the same equity holder (hereinafter referred to as the "Controlling Shareholder") through direct or indirect equity holdings in the PRC Operating Entities. As part of the Reorganisation, the Group obtained control of the PRC Operating Entities and continued to obtain the economic benefits from the education business by executing certain structured contracts. On 31 October 2017, Anhui Ronghua Education Technology Co., Ltd ("Xinhua Anhui"), an indirect wholly-owned subsidiary of the Company, entered into certain contracts (the "Structured Contracts I") with the PRC Operating Entities and their respective equity holders. On 6 February 2018, Xinjiang Ronghua Education Technology Co., Ltd. ("Xinhua Xinjiang"), an indirect wholly-owned subsidiary of the Company, entered into another series of certain contracts (the "Structured Contracts II") with the PRC Operating Entities and their respective equity holders. The terms and conditions of Structured Contracts II are the same as those contained in the Structured Contracts I in all material aspects, pursuant to which the Structured Contracts I were automatically terminated and all economic benefits arising from the business of the PRC Operating Entities are transferred to Xinhua Xinjiang. The structured contracts, taken as a whole, enable Xinhua Anhui and Xinhua Xinjiang to have effective control over the operating and financial policies of the PRC Operating Entities. The directors of the Group are of the view that, notwithstanding the lack of equity ownership, the structured contracts effectively provide Xinhua Anhui and Xinhua Xinjiang the power to govern and control the PRC Operating entities so as to obtain benefits from their business activities. Accordingly, the PRC Operating Entities are included in the Group's consolidated financial statements as controlled subsidiaries.

All the companies now comprising the Group (including the PRC Operating Entities) that took part in the Reorganisation were ultimately controlled by the Controlling Shareholder both before and after the Reorganisation. Since there was a continuation of the risks and benefits of the Controlling Shareholder, the Reorganisation is considered to be a combination of entities under common control. These financial statements have been prepared using the merger basis of accounting as if the current group structure had always been in existence at the beginning of the earliest year presented.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial assets measured at fair value through profit or loss (see Note 2(e)) are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, 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*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and recognised the cumulative effect of initial application if any as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

The Group has performed an assessment on the impact of the adoption of IFRS 16 and concluded that no adjustment to the opening balance of equity at 1 January 2019 was recognised. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Changes in accounting policies (continued)

IFRS 16, *Leases* (continued)

b. Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt. For an explanation of how the Group applies lessee accounting, see Note 2(h)(i).

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019.

The Group presents right-of-use assets and lease liabilities separately in the statement of financial position. To reflect the changes in presentation, the Group had made the following adjustment at 1 January 2019, as a result of the adoption of IFRS16:

– Lease prepayments amounting to RMB87,880,000 as at 1 January 2019, which represents land use rights in respect of land located in the PRC with lease term of 50 years is now measured under right-of-use assets.

c. Lessor accounting

The Group leases out premises to the independent third parties in connection with the operation of canteens and stores on the Group's campuses. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under IAS 17.

Under IFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of IFRS 16 does not have a significant impact on the Group's financial statements in this regard.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(e)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 24(c). These investments are subsequently accounted for as follows, depending on their classification.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Other investments in debt and equity securities (continued)

(i) Investments other than equity investments

Non-equity investments held by the group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(r)(iv)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment and right-of-use assets

Property, plant and equipment, other than construction in progress and right-of-use assets, are stated in the consolidated statements of financial position at cost less accumulated depreciation and impairment losses (see Note 2(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment and right-of-use assets, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings	20 – 40 years
– Motor vehicles	10 years
– Furniture and fixtures	3 – 5 years
– Electronic devices	3 – 5 years
– Right-of-use assets	50 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is stated at cost less impairment losses (see Note 2(i)(ii)). Capitalisation of construction in progress costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(i)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Computer software	5 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

(i) As a lessee (continued)

(A) Policy applicable from 1 January 2019 (continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(f) and 2(i)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in Note 2(f). Impairment losses were accounted for in accordance with the accounting policy as set out in Note 2(i). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(r)(iii).

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs (continued)

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk (continued)

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;

- a breach of contract, such as a default or past due event;

- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– right-of-use assets;

– intangible assets; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Credit losses and impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Note 2(i)).

(j) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(r)).

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(i)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(i)(i).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, 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 with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue and other income (continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Tuition and boarding fee

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

(ii) Service income

Service income is recognised when the Group satisfies a performance obligation by transferring a promised service to a customer.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iv) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(i)(i)).

(v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

Structured contracts

The Group conducts a substantial portion of the business through Anhui Xinhua University ("Xinhua University"), Anhui Xinhua School ("Xinhua School") and Anhui Xinhua Group Investment Co., Ltd ("Xinhua Group") (the "PRC Operating Entities"), due to regulatory restrictions on the foreign ownership in the Group's schools in the PRC. The Group does not have any equity interest in the PRC Operating Entities. The directors assessed whether or not the Group has control over the PRC Operating Entities, has rights to variable returns from its involvement with the PRC Operating Entities and has the ability to affect those returns through its power over the PRC Operating Entities. After assessment, the directors concluded that the Group has control over the PRC Operating Entities as a result of the Structured Contracts and accordingly the financial position and their operating results of the PRC Operating Entities are included in the Group's consolidated financial statements throughout the year.

Nevertheless, the Structured Contracts may not be as effective as direct legal ownership in providing the Group with direct control over the PRC Operating Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the PRC Operating Entities. The directors, based on the advice of its other legal counsel, consider that the Structured Contracts among the PRC Operating Entities and their equity shareholders are in compliance with the relevant PRC laws and regulations and are legally enforceable.

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(a) Critical accounting judgements in applying the Group's accounting policies (continued)

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgment on the future tax treatment of certain transactions. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(b) Sources of estimation uncertainty

Key sources of estimation uncertainty are as follows:

(i) Depreciation

As described in Note 2(f), property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management reviews annually the useful lives of the assets and residual values, if any, in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological and other changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

(ii) Impairment of non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss would be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(i)(ii). The carrying amounts of the Group's non-current assets, including property, plant and equipment, right-of-use assets, and intangible assets are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and the fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate selling price of the Group's non-current assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of IFRS15		
Tuition fees	**391,917**	341,535
Boarding fees	**45,815**	44,592
Total	**437,732**	386,127

Revenue represents the value of service rendered during the year. No service provided to a single customer exceeds 10% or more of the total revenue of the Group during the year.

The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its tuition and boarding fees received by university and school such that the Group does not include information about revenue that the Group will be entitled to when it satisfied the remaining performance obligations for tuition and boarding fees received by university and school that had an original expected duration of one year or less.

(b) Segment Reporting

IFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the provision of education services.

5 OTHER INCOME

	2019 RMB'000	2018 RMB'000
Rental and property management income	**31,553**	25,436
Service income	**25,590**	25,957
Government grants (i)	**15,427**	7,262
Net realised and unrealised gains on financial assets measured at fair value through profit or loss	**385**	16,470
Interest income on financial assets measured at amortised cost	**30,238**	17,300
Gain/(loss) on operation of the School of Clinical Medicine and Hongshan College (ii)	**9,780**	(2,695)
Others	**2,463**	2,028
	115,436	91,758

(i) Government grants mainly represent the grants from the local government for the purpose of compensating the operating expenses arising from the Group's teaching activities, scientific researches and other expenses.

(ii) On 20 November 2017, the Group entered into a formal agreement with Anhui Medical University for a term of three years to jointly operate the School of Clinical Medicine with the eventual goal of converting the School of Clinical Medicine into a school owned and operated solely by the Group. According to the agreement, the Group is entitled to the tuition fees relating to those students admitted in the 2018-2019 school year and thereafter is responsible for the operation costs of the campus before the conversion.

On 29 April 2019, the Group entered into agreements with Nanjing University of Finance and Economics and Nanjing University of Finance and Economics Education Development Foundation, pursuant to which the Group would jointly operate Hongshan College of Nanjing University of Finance and Economics ("Hongshan College") with Nanjing University of Finance and Economics with the eventual goal of converting Hongshan College into a school owned and operated solely by the Group. According to the agreement, the Group is entitled to the tuition fees of Hongshan College from the 2019-2020 school year and thereafter is responsible for the operation costs of the campus before the conversion.

The amount represents the recognized revenue less the operation costs of the School of Clinical Medicine and Hongshan College during the year. After the conversion, the operation results of the School of Clinical Medicine and Hongshan College will be consolidated into the Group.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2019 RMB'000	2018 RMB'000
(a) Finance costs		
Interest expense on bank loans	**845**	85
(b) Staff costs		
Salaries, wages and other benefits	**128,803**	102,061
Contributions to defined contribution retirement plan (i)	**8,273**	8,622
Share-based payment expenses	**16,680**	–
	153,756	110,683

(i) Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

	2019 RMB'000	2018 RMB'000
(c) Other items		
Depreciation of property, plant and equipment	**54,579**	51,386
Amortisation of intangible assets	**2,894**	1,760
Depreciation of right-of-use assets	**2,557**	–
Amortisation of lease prepayments	**–**	2,557
Auditors' remuneration	**1,800**	2,505
	61,830	58,208

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2019 RMB'000	2018 RMB'000
Current tax		
Provision for PRC income tax for the year	**3,084**	1,982

(i) 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.

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the year.

(iii) Pursuant to the PRC Income Tax Law and the respective regulations, the companies of the Group which operate in Mainland China are subject to Corporate Income Tax ("CIT") at a rate of 25% on its taxable income.

(iv) According to the Implementation Rules for the Law for Promoting Private Education (the "Implementation Rules"), private schools, whether requiring reasonable returns or not, may enjoy preferential tax treatment. Private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatment as public schools. The Implementation Rules provide that the relevant authorities under the State Council may introduce preferential tax treatments and related policies applicable to private schools requiring reasonable returns. During the year and up to the date of this report, no separate policies, regulations or rules have been introduced by the tax authorities in this regard. In accordance with the historical tax returns filed to the relevant tax authorities and the confirmation obtained therefrom, the Group's schools which do not require reasonable returns did not pay corporate income tax for the income from provision of formal educational services and had enjoyed the preferential corporate income tax exemption treatment since their establishment. As a result, no income tax expense for the income from provision of formal educational services was recognised for the Group's schools for the year ended 31 December 2019.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 RMB'000	2018 RMB'000
Profit before taxation	**273,757**	257,992
Tax at the statutory rate	**68,439**	64,498
Tax effect of non-taxable income	**(66,612)**	(61,016)
Utilization of temporary difference and tax losses not recognized	**–**	(1,524)
Tax effect of temporary difference and tax losses not recognized	**1,150**	–
Tax effect of non-deductible expenses	**107**	24
Actual income tax expense	**3,084**	1,982

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

(c) Deferred tax assets not recognized

As at 31 December 2019, the Group has not recognised deferred tax assets in respect of deductible temporary differences and tax losses with total amount of RMB19,710,000 (2018: RMB15,112,000), as it is not probable that future taxable profits against which the deductible temporary differences can be utilised will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognized

The PRC Enterprise Income Tax law and its relevant regulations impose a withholding tax at 10%, unless reduced by a tax treaty/arrangement, for dividend distributions out of earnings accumulated beginning on 1 January 2008. Undistributed earnings generated prior to 1 January 2008 are exempted from such withholding tax.

As at 31 December 2019, the Group has not recognized deferred tax liabilities in respect of undistributed earnings generated by its PRC entities, with approximate total amount of RMB989,360,000 (2018: RMB792,612,000). In the opinion of the directors, the Group's undistributed earnings will be retained in the PRC for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments *(Note)* RMB'000	2019 Total RMB'000
Chairman and non-executive Director							
Mr. Wu Junbao	–	–	–	–	–	–	–
Executive directors							
Mr. Zhang Ming	–	401	420	–	821	4,141	4,962
Mr. Lu Zhen	–	324	300	9	633	1,153	1,786
Mr. Wang Yongkai	–	320	144	–	464	1,153	1,617
Independent non-executive directors							
Mr. Jiang Min	38	–	–	–	38	–	38
Mr. Yang Zhanjun	150	–	–	–	150	–	150
Mr. Chau Kwok Keung	150	–	–	–	150	–	150
Ms. Zhang Kejun	100	–	–	–	100	–	100
	438	1,045	864	9	2,356	6,447	8,803

8 DIRECTORS' EMOLUMENTS (continued)

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to retirement benefit schemes RMB'000	2018 Total RMB'000
Chairman and non-executive Director					
Mr. Wu Junbao	–	–	–	–	–
Executive directors					
Mr. Zhang Ming	–	–	–	–	–
Mr. Lu Zhen	–	259	276	12	547
Mr. Wang Yongkai	–	251	276	–	527
Mrs. Wang Li	–	96	–	9	105
Independent non-executive directors					
Ms. Zhang Kejun	100	–	–	–	100
Mr. Yang Zhanjun	150	–	–	–	150
Mr. Chau Kwok Keung	150	–	–	–	150
	400	606	552	21	1,579

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 2(o)(ii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and Note 23(e).

Ms. Zhang Kejun resigned as independent non-executive director of the Company on 30 September 2019.

Mr. Jiang Min was appointed as independent non-executive director of the Company on 30 September 2019.

Except for Mr. Wu Junbao, no directors of the Group waived or agreed to waive his or her emolument during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments of the Group, three of them are directors of the Company (2018: two). The aggregate of the emoluments in respect of the remaining two individuals (2018: three) are as follows:

	2019	2018
	RMB'000	RMB'000
Salaries, allowance and benefits in kind	**648**	1,038
Discretionary bonuses	**600**	286
Share-based payments	**2,306**	–
Contributions to retirement benefit schemes	**18**	24
	3,572	1,348

The emoluments of the two (2018: three) individuals with the highest emoluments are within the following bands:

	2019	2018
	Number of individuals	Number of individuals
Nil – HK$1,000,000	**–**	3
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**2**	–

10 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2019 is based on the profit attributable to equity holder of the Company for the year ended 31 December 2019 of RMB270,673,000 (2018: RMB256,010,000) and the weighted average number of ordinary shares of 1,608,583,000 in issue during the year (2018: 1,512,893,000 shares after taking into account the Capitalization Issue (Note 23(c)(ii))), calculated as follows:

	2019	2018
	(thousand)	(thousand)
Issued ordinary shares at 1 January	**1,608,583**	5
Effect of Capitalization Issue *(Note 23(c)(ii))*	**–**	1,199,995
Effect of issues of ordinary shares by initial public offering *(Note 23(c)(ii))*	**–**	312,893
Weighted average number of ordinary shares at 31 December	**1,608,583**	1,512,893

The share options granted on 30 April 2019 and 15 July 2019 (see Note 23(e)) does not give rise to any dilution effect on the Company's earnings per share and there were no dilutive potential ordinary shares throughout the year ended 31 December 2019, and therefore, the basic and diluted earnings per share are the same.

There were no dilutive potential ordinary shares for the year ended 31 December 2018 and, therefore, diluted earnings per share are equivalent to basic earnings per share.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Electronic devices RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2018	576,366	10,475	135,497	66,139	31,814	820,291
Additions	8,180	1,674	4,497	6,481	16,657	37,489
Disposals	(2,938)	(104)	(110)	(1,105)	–	(4,257)
Transfers	27,264	–	–	–	(27,264)	–
At 31 December 2018	608,872	12,045	139,884	71,515	21,207	853,523
At 1 January 2019	**608,872**	**12,045**	**139,884**	**71,515**	**21,207**	**853,523**
Additions	**3,161**	**1,581**	**8,675**	**9,363**	**24,838**	**47,618**
Disposals	**–**	**(35)**	**(73)**	**–**	**(1,262)**	**(1,370)**
Transfers	**27,010**	**–**	**301**	**3,934**	**(31,245)**	**–**
At 31 December 2019	**639,043**	**13,591**	**148,787**	**84,812**	**13,538**	**899,771**
Accumulated depreciation:						
At 1 January 2018	(183,811)	(5,736)	(94,043)	(44,818)	–	(328,408)
Charge for the year	(29,165)	(951)	(13,778)	(7,492)	–	(51,386)
Disposal	1,043	11	106	1,105	–	2,265
At 31 December 2018	(211,933)	(6,676)	(107,715)	(51,205)	–	(377,529)
At 1 January 2019	**(211,933)**	**(6,676)**	**(107,715)**	**(51,205)**	**–**	**(377,529)**
Charge for the year	**(30,938)**	**(1,074)**	**(13,389)**	**(9,178)**	**–**	**(54,579)**
Disposal	**–**	**11**	**73**	**–**	**–**	**84**
At 31 December 2019	**(242,871)**	**(7,739)**	**(121,031)**	**(60,383)**	**–**	**(432,024)**
Net book value:						
At 31 December 2018	396,939	5,369	32,169	20,310	21,207	475,994
At 31 December 2019	**396,172**	**5,852**	**27,756**	**24,429**	**13,538**	**467,747**

The Group's buildings are situated in Anhui province, the PRC. Certificates of ownership in respect of certain buildings of the Group with total net carrying amounts of RMB101,616,326 as at 31 December 2019 (2018: RMB126,073,841) have not yet been issued by the relevant PRC authorities. As at the end of the year, the directors were in the process of obtaining these certificates.

12 RIGHT-OF-USE ASSETS

	2019 RMB'000
Cost:	
At 1 January	**127,872**
Additions	**–**
At 31 December	**127,872**
Accumulated depreciation:	
At 1 January	**(39,992)**
Charge for the year	**(2,557)**
At 31 December	**(42,549)**
Net book value:	
At 31 December	**85,323**

Lease prepayments amounting to RMB87,880,000 as at 1 January 2019 is now measured under right-of-use assets (see Note 2(c)), and they represent land use rights in respect of land located in the PRC with lease term of 50 years.

13 INTANGIBLE ASSETS

	Computer software RMB'000	School operation right RMB'000	Total RMB'000
Cost:			
At 1 January 2018	11,587	–	11,587
Additions	4,709	195,961	200,670
At 31 December 2018	16,296	195,961	212,257
At 1 January 2019	**16,296**	**195,961**	**212,257**
Additions	**5,341**	**–**	**5,341**
At 31 December 2019	**21,637**	**195,961**	**217,598**
Accumulated amortisation:			
At 1 January 2018	(6,286)	–	(6,286)
Charge for the year	(1,760)	–	(1,760)
At 31 December 2018	(8,046)	–	(8,046)
At 1 January 2019	**(8,046)**	**–**	**(8,046)**
Charge for the year	**(2,894)**	**–**	**(2,894)**
At 31 December 2019	**(10,940)**	**–**	**(10,940)**
Net book value:			
At 31 December 2019	**10,697**	**195,961**	**206,658**
At 31 December 2018	8,250	195,961	204,211

As at 31 December 2019, intangible assets mainly represent a school operation right for the School of Clinical Medicine acquired from Anhui Medical University in the amount of RMB195,961,300.

The school operation right is stated at cost and not amortised while its useful life is assessed to be indefinite, and the Group performs impairment assessment annually or when indicators of potential impairment are identified. The school operation right is allocated to the cash-generating unit ("CGU") of the School of Clinical Medicine, and the recoverable amount of this CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a six-year period. Cash flows beyond the six-year period are extrapolated by using an estimated growth rate of 3% (2018: 3%) which is based on the relevant industry growth forecasts. The discount rates applied to the cash flow projections is 17% (2018: 17%). Key assumptions used for value in use calculations are the growth rates for sales, corresponding gross margin rates and working capital changes, based on management's projection and expected market development.

14 INVESTMENTS IN SUBSIDIARIES

The Company, either through legal ownership or implementation of the structured contracts, has direct and indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ business	Registered capital/issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xinhua Education International Limited	British Virgin Islands 31 August 2017	USD500/ USD0.01	100%	–	Investment holding
Hong Kong Xinhua Education Limited	Hong Kong 8 September 2017	HKD1/ HKD1	–	100%	Investment holding
Xinhua Education, Inc.	The United States 22 August 2017	USD0.1/ USD0.01	–	100%	Investment holding
Anhui Ronghua Education Technology Co., Ltd* 安徽融華教育科技有限公司 *(Note(a)(c))*	The PRC 30 September 2017	RMB10,000,000/ –	–	100%	Provision of technical and management consultancy services
Xinjiang Ronghua Education Technology Co., Ltd* 新疆融華教育科技有限公司 *(Note(a)(c))*	The PRC 17 January 2018	RMB50,000,000/ –	–	100%	Provision of technical and management consultancy services
Anhui Xinhua Group Investment Co., Ltd* 安徽新華集團投資有限公司 *(Note(b)(c))*	The PRC 1 September 1999	RMB100,000,000/ RMB100,000,000	–	100%	Investment holding
Anhui Xinhua University* 安徽新華學院 *(Note(b))*	The PRC 18 June 2000	RMB60,480,000/ RMB60,480,000	–	100%	Provision of formal undergraduate and junior college education services
Anhui Xinhua School* 安徽新華學校 *(Note(b))*	The PRC 11 April 2002	RMB4,950,000/ RMB4,950,000	–	100%	Provision of formal vocational secondary school education services

Notes:

(a) These entities are incorporated in the PRC as a wholly foreign-owned enterprise by Hong Kong Xinhua Education Limited.

(b) These are PRC operating entities ultimately controlled by the Controlling Shareholder through structured contracts.

(c) These entities are limited liability companies established in the PRC.

* The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

15 OTHER NON-CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Prepayment for investments	**660,000**	–

As at 31 December 2019, the prepayment for investments represent the down-payment for acquisition of Hongshan College.

16 TRADE RECEIVABLES

As at the end of the year, an ageing analysis of the Group's trade receivables, based on the transaction date, is as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**2,768**	261

Details on the Group's credit policy are set out in Note 24(a). No allowance for doubtful debts was made as at the end of the year.

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Prepayments and deposits	**207,723**	5,289
Other receivables	**280,475**	7,753
	488,198	13,042

As at 31 December 2019, prepayment and deposits mainly comprise the balance due from Hongshan College with the amount of RMB200,000,000, and other receivable mainly comprise the balance due from the School of Clinical Medicine with the amount of RMB222,374,000.

18 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Financial assets measured at FVPL	**–**	60,242

Financial assets measured at FVPL comprise the investments in wealth management products purchased from banks in the PRC.

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 RMB'000	2018 RMB'000
Cash at bank and on hand	**1,382,996**	1,861,671

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2019 RMB'000	2018 *(Note)* RMB'000
Profit before taxation		**273,757**	257,992
Adjustments for:			
Depreciation of property, plant and equipment	6(c)	**54,579**	51,386
Amortisation of intangible assets	6(c)	**2,894**	1,760
Depreciation of right-of-use assets	6(c)	**2,557**	–
Amortisation of lease prepayments	6(c)	**–**	2,557
Finance costs	6(a)	**845**	85
Loss on sale of property, plant and equipment		**–**	1,841
Share-based payment expenses	6(b)	**16,680**	–
Net realised and unrealised gain of financial assets measured at fair value through profit or loss	5	**(385)**	(16,470)
Operating profit before changes in working capital		**350,927**	299,151
Increase in trade and other receivables		**(230,377)**	(485)
Increase in contract liability		**26,670**	21,037
Increase/(decrease) in other payables		**9,694**	(25,188)
(Decrease)/increase in deferred income		**(1,510)**	126
Cash generated from operations		**155,404**	294,641

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities

	Bank loans RMB'000 *(Note 20)*	Interest payable RMB'000 *(Note 22)*	Total RMB'000
Balance at 1 January 2018	–	–	–
Non-cash changes			
– Interest expense on bank loan *(Note 6(a))*	–	85	85
Cash flows			
– Inflow from financing activities	35,000	–	35,000
– Outflow from financing activities	(35,000)	(85)	(35,085)
Balance at 31 December 2018 and 1 January 2019	**–**	**–**	**–**
Non-cash changes			
– Interest expense on bank loan *(Note 6(a))*	**–**	**845**	**845**
Cash flows			
– Inflow from financing activities	**435,000**	**–**	**435,000**
– Outflow from financing activities	**(105,000)**	**(649)**	**(105,649)**
Balance at 31 December 2019	**330,000**	**196**	**330,196**

20 LOANS AND BORROWINGS

	2019 RMB'000	2018 RMB'000
Unsecured bank loan	**330,000**	–

As at 31 December 2019, the unsecured bank loans carried interest at annual rates of 4.35% and 4.90%.

21 CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Tuition fees	**211,289**	183,839
Boarding fees	**28,191**	28,971
	239,480	212,810

Movements in contract liabilities

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**212,810**	191,773
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(212,810)**	(191,773)
Increase in contract liabilities as a result of receipts in advance of performance	**239,480**	212,810
Balance at 31 December	**239,480**	212,810

22 OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Miscellaneous expenses received from students (i)	**27,318**	27,467
Accrued expenses	**8,279**	7,203
Payables to suppliers	**19,716**	28,599
Accrued staff costs	**21,949**	16,542
Interest payable	**196**	–
Others	**24,600**	21,207
	102,058	101,018

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

All other payables are expected to be settled within one year.

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

		Attributable to equity shareholders of the Company				
	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018		–*	–	–	–	–*
Changes in equity for 2018:						
Profit for the year		–	–	–	8,880	8,880
Other comprehensive income		–	–	90,626	–	90,626
Total comprehensive income		–	–	90,626	8,880	99,506
Issuance of ordinary shares through initial public offering, net of issuance costs	23(d)	3,290	1,034,683	–	–	1,037,973
Capitalization issue	23(c)(ii)	9,662	(9,662)	–	–	–
Balance at 31 December 2018 and 1 January 2019 *(Note)*		**12,952**	**1,025,021**	**90,626**	**8,880**	**1,137,479**
Changes in equity for 2019:						
Profit for the year		**–**	**–**	**–**	**10,577**	**10,577**
Other comprehensive income		**–**	**–**	**25,504**	**–**	**25,504**
Total comprehensive income		**–**	**–**	**25,504**	**10,577**	**36,081**
Dividends approved in respect of the previous year	23(b)	**–**	**(79,111)**	**–**	**–**	**(79,111)**
Balance at 31 December 2019		**12,952**	**945,910**	**116,130**	**19,457**	**1,094,449**

Note: The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2019 RMB'000	2018 RMB'000
Final dividend proposed after the end of the reporting period of HK$5.53 cents per ordinary share (2018: HK$5.59 cents)	**81,073**	76,729

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year:

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$5.59 cents per share (2018: nil)	**79,111**	–

(c) Share capital

The share capital of the Group represents the issued capital of the Company at the respective balance sheet dates.

Movements in the authorised share capital of the Company during the period are as follows:

	2019		2018	
	Number of shares (thousand)	**Amount HK$'000**	Number of shares (thousand)	Amount HK$'000
Ordinary shares, authorised (i):				
Ordinary shares of HK$0.01 each	**2,000,000**	**20,000**	2,000,000	20,000
Ordinary shares, issued and fully paid (ii):				
At 1 January	**1,608,583**	**16,086**	5	–*
Capitalisation issue	–	–	1,199,995	12,000
Issues of ordinary shares by initial public offering	–	–	408,583	4,086
At 31 December	**1,608,583**	**16,086**	1,608,583	16,086
RMB equivalent ('000)		**12,952**		12,952

* The balance represents an amount less than 1,000.

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

(i) Authorised share capital

The Company was incorporated in the Cayman Islands on 30 August 2017 with an authorised share capital of HK$380,000 divided into 38,000,000 shares of par value of HK$0.01 each.

Pursuant to the written resolutions of the shareholders passed on 8 March 2018, the authorised number of ordinary shares was increased from 38,000,000 to 2,000,000,000 of par value of HK$0.01 each.

(ii) Issued share capital

The following sets out the changes in the Company's issued share capital since the date of its incorporation:

– The Company was incorporated on 30 August 2017 with issued capital of 5,172 ordinary shares at HK$0.01 each. The issued capital was subsequently credited as fully paid.

– Pursuant to the written resolutions of the shareholders passed on 8 March 2018, the Company capitalized, out of the share premium as at 26 March 2018, HK$11,999,948.28 (equivalent to RMB9,662,000) in paying up in full at par 1,199,994,828 shares for allotment and issue to the shareholders whose names appear on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis (the "Capitalisation Issue").

– On 26 March 2018, the Company issued 400,000,000 new ordinary shares of HK$0.01 each by way of the offering to Hong Kong and overseas investors (the "Offering"). Consequently, HK$4,000,000 (equivalent to RMB3,221,000) was recorded in share capital. On 18 April 2018, the Company issued 8,583,000 new ordinary shares to cover over-allocations in the Offering. Consequently, HK$85,830 (equivalent to RMB69,000) was recorded in share capital.

(d) Nature and purpose of reserves

(i) Share premium

On 26 March 2018 and 18 April 2018, the Company issued 408,583,000 new ordinary shares of HK$0.01 each at a price of HK$3.26 per share by way of the Offering. Net proceeds from the Offering amounted to RMB1,037,973,000 (after offsetting issuance costs of RMB34,399,000), out of which RMB3,290,000 and RMB1,034,683,000 were recorded in share capital and share premium respectively.

(ii) PRC statutory reserves

Statutory reserves are established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective boards of directors' meeting. These reserves include (i) general reserve of the limited liability companies and (ii) the development fund of schools.

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves (continued)

(ii) PRC statutory reserves (continued)

- In accordance with the PRC Company Law, 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 reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

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

(e) Equity settled share-based transactions

On 30 April 2019, 15,000,000 share options were granted to Mr. Zhang Ming, an executive Director, under the Company's employee share option scheme, with an exercise price of HK$2.69 per share. Each option gives the holder the right to subscribe for one ordinary share of the Company.

On 15 July 2019, 52,900,000 share options to subscribe for the ordinary shares of HK$0.01 each in the share capital of the Company were granted to certain employees, including two executive directors Lu Zhen and Wang Yongkai, with an exercise price of HK$2.82 per share.

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Equity settled share-based transactions (continued)

(i) The terms and conditions of the grants are as follows:

Options granted to employees on	Number of instruments	Vesting conditions	Contractual life of options
– on 30 April 2019	15,000,000	20% on 30 April 2020 20% on 30 April 2021 20% on 30 April 2022 20% on 30 April 2023 20% on 30 April 2024	5 years after the vesting date
– on 15 July 2019 including:			
Group A	33,000,000	25% on 15 July 2020 25% on 15 July 2021 25% on 15 July 2022 25% on 15 July 2023	5 years after the vesting date
Group B	1,500,000	30% on 15 July 2020 30% on 15 July 2021 40% on 15 July 2022	5 years after the vesting date
Group C	15,200,000	50% on 15 July 2020 50% on 15 July 2021	5 years after the vesting date
Group D	1,200,000	100% on 15 July 2020	5 years after the vesting date
Group E	2,000,000	100% on 15 July 2019	5 years after the vesting date
Total share options granted	67,900,000		

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Equity settled share-based transactions (continued)

(ii) The number and weighted average exercise prices of share options are as follows:

	2019 Weighted average exercise price HK$	2019 Number of options '000	2018 Weighted average exercise price HK$	2018 Number of options '000
Outstanding at the beginning of the year	–	–	–	–
Exercised during the year	–	–	–	–
Forfeited during the year	–	–	–	–
Granted during the year	**2.79**	**67,900**	–	–
Outstanding at the end of the year	**2.79**	**67,900**	–	–
Exercisable at the end of the year	**2.82**	**2,000**	–	–

The options outstanding at 31 December 2019 had an exercise price of HK$2.69 or HK$2.82 (2018: nil) and a weighted average remaining contractual life of 6.8 years (2018: nil).

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

	30 April 2019	15 July 2019
Fair value of share options and assumptions		
Fair value at measurement date (HK$'000)	**16,434**	**53,520**
Share price (HK$)	**2.66**	**2.82**
Exercise price (HK$)	**2.69**	**2.82**
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**47.04%**	**41.99%**
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**8.0 years**	**7.2 years**
Expected dividends	**2.10%**	**1.98%**
Risk-free interest rate	**1.672%-1.697%**	**1.418%-1.566%**

23 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Equity settled share-based transactions (continued)

(iii) Fair value of share options and assumptions (continued)

The expected volatility is based on the average volatilities in the similar industry. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a debt-to-asset ratio. This ratio is calculated as total liabilities divided by total assets.

The debt-to-asset ratio at 31 December 2019 and 2018 was as follows:

	2019 **RMB'000**	2018 RMB'000
Total liabilities	**675,410**	318,767
Total assets	**3,293,690**	2,703,301
Debt-to-asset ratios	**21%**	12%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and financial assets which comprise bank balances and investments in wealth management products.

In respect of trade receivables, the balances represent amounts related to students who have applied for the delayed payment of tuition fees and boarding fees. There is no fixed term for delayed payments. The Group's students are required to pay tuition fees and boarding fees in advance for the upcoming school year or semester, which normally commences in September or February. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified students, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

In respect of bank balances and investments in wealth management products, the Group transacts mainly with recognized and creditworthy banks, and the maximum exposure equal to the carrying amount of these financial assets.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	At 31 December 2019			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 5 years RMB'000**	**Total RMB'000**	**Carrying amount RMB'000**
Other payables	**102,058**	**–**	**102,058**	**102,058**
Loans and borrowings	**332,543**	**–**	**332,543**	**330,000**
	434,601	**–**	**434,601**	**432,058**

	At 31 December 2018			
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Other payables	101,018	–	101,018	101,018

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 input i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

– Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group has a team headed by the finance manager performing valuation for wealth management products which are categorized into Level 3 of the fair value hierarchy. The team reports directly to the head of finance department. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the head of finance department. Discussion of the valuation process and results with the head of finance department and the directors is held twice a year, to coincide with the reporting dates.

	2019	2018
	RMB'000	RMB'000
Level 3 – bank's wealth management products	–	60,242

The fair values of banks' wealth management products have been estimated using a discounted cash flow valuation model based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to make estimates about the expected future cash flows including expected future interest return on maturity of the wealth management products. The directors believe that the estimated fair values resulting from the valuation technique are reasonable, and that they were the most appropriate values at the end of reporting period.

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

During the year ended 31 December 2018 and 2019, there was no transfer between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The movements during the period in the balance of these Level 3 fair value measurements was as follows:

	2019 RMB'000	2018 RMB'000
Bank's wealth management products:		
At beginning of the year	**60,242**	235,521
Payment for purchases	**–**	2,400,500
Changes in fair value recognised in profit or loss during the year	**385**	16,470
Redemption of investment	**(60,627)**	(2,592,249)
At ending of the year	**–**	60,242

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortized cost are not materially different from their fair values as at 31 December 2019 and 2018 due to short-term maturity of these instruments.

25 COMMITMENTS

Capital commitments of the Group in respect of plant, property and equipment and land use rights outstanding at 31 December 2019 and 2018 not provided for in the consolidated financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Authorised but not contracted for	**966,090**	615,212

26 MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2019, the directors are of the view that the following companies and persons are related parties of the Group:

Name of party	Relationship
Wu Junbao	Controlling Shareholder
Anhui New East Cuisine Education Institute ("New East Cuisine") 安徽新東方烹飪專修學院	Fellow subsidiary
Xinhua Computer College ("Xinhua Computer") 新華電腦專修學院	Fellow subsidiary

Note: The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

(a) Significant related party transactions

	2019 **RMB'000**	2018 RMB'000
Service fee charged by related parties	**1,376**	2,428
Rental fee charged by related parties	**7,200**	600
Repayment to related parties	–	511

As at 31 December 2019, the Group's interest-bearing bank loan with the amount of RMB30,000,000 was guaranteed by the Controlling Shareholder Mr. Wu Junbao.

(b) Key management personnel remuneration

Key management personnel remuneration is disclosed in Notes 8 and 9.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in terms of service fee and rental fee above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Non-exempt Continuing Connected Transactions of the directors' report.

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Investments in subsidiaries		–*	–*
		–*	–*
Current assets			
Amounts due from a subsidiary		**346,579**	15,694
Prepayments		**25**	–
Cash and cash equivalents		**748,158**	1,124,270
		1,094,762	1,139,964
Current liabilities			
Other payables		**313**	2,485
		313	2,485
Net current assets		**1,094,449**	1,137,479
Total assets less current liabilities		**1,094,449**	1,137,479
NET ASSETS		**1,094,449**	1,137,479
CAPITAL AND RESERVES	23(a)		
Share capital		**12,952**	12,952
Reserves		**1,081,497**	1,124,527
TOTAL EQUITY		**1,094,449**	1,137,479

* The balance represents an amount less than RMB1,000.

Approved and authorised for issue by the board of directors on 25 March 2020.

Zhen Lu
Director

Yongkai Wang
Director

28 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

As a result of the COVID-19 situation in early 2020, the Chinese government had taken various emergency measures to prevent the spread of the epidemic, including delaying the starting dates of various types of schools. Based on the requirements of relevant competent authorities, the Group has formulated a response work plan scientifically, launched online education platforms, and actively taken various infection control actions. As at the date of this report, the Group was assessing its impact on the Group's financial position and operating performance and closely monitoring the Group's exposure to relevant risks and uncertainties.

29 COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate parent and ultimate controlling party of the Group to be Wu Junbao Company Limited, which was incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
Revised Conceptual framework for financial reporting	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*	1 January 2020
IFRS 17, *Insurance contracts*	1 January 2021
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In this annual report, unless the context otherwise requires, the following expressions have the following meanings:

"AGM"	the annual general meeting of the Company
"American College"	Xinhua American College, a private higher education institution established by our Group in the State of Florida, US and obtained the provisional license dated 27 December 2017 to offer post secondary programs
"Anhui Education Department"	Department of Education of Anhui Province (安徽省教育廳)
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company conditionally adopted on 8 March 2018 and effective upon the Listing Date, and as amended from time to time
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Business Cooperation Agreement"	the business cooperation agreement entered into by and among Xinhua Anhui, the PRC Consolidated Affiliated Entities and the Registered Shareholders dated 31 October 2017
"Business Day" or "business day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"China" or "PRC"	the People's Republic of China excluding for the purpose of this annual report, Hong Kong, the Macau Special Administrative Region and Taiwan
"CIE"	Commission for Independent Education, which is established in the Florida Department of Education
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as the same may be amended, supplemented or otherwise modified from time to time
"Company"	China Xinhua Education Group Limited, a company incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules

"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to the controlling shareholders of our Company, namely WJB Company and Mr. Wu Junbao
"Deed of Non-competition"	a deed of non-competition dated 8 March 2018 entered into by our Controlling Shareholders in favor of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding the non-competition undertaking
"Director(s)"	the director(s) of the Company
"Directors' Powers of Attorney"	the school sponsor appointed director's power of attorney executed by each of the directors appointed by the School Sponsor of each PRC Operating School dated 31 October 2017
"Equity Pledge Agreement"	the equity pledge agreement entered into by and among the Registered Shareholders, Xinhua Group and Xinhua Anhui dated 31 October 2017
"Exclusive Call Option Agreement"	the exclusive call option agreement entered into by and among Xinhua Anhui, our PRC Consolidated Affiliated Entities and the Registered Shareholders dated 31 October 2017
"Exclusive Technical Service and Management Consultancy Agreement"	the exclusive technical service and management consultancy agreement entered into by and among Xinhua Anhui and our PRC Consolidated Affiliated Entities dated 31 October 2017
"Foreign Investment Catalog"	the Guidance Catalog of Industries for Foreign Investment (《外商投資產業指導目錄(2017)》), 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 28 July 2017 and became effective from 28 July 2017, which is amended from time to time
"Foundation"	Nanjing University of Finance and Economics Education Development Foundation* (南京財經大學教育發展基金會)
"FVPL"	fair value through profit or loss
"Global Offering"	the Hong Kong Public Offering and the International Offering
"Group", "we", "our" or "us"	the Company, its subsidiaries and consolidated affiliated entities
"Haiyuan College"	Kunming Medical University Haiyuan College* (昆明醫科大學海源學院), an independent college

"HK$", "Hong Kong dollar(s)", "HKD" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Huayuan Partnership"	Hefei Huayuan Equity Investment Limited Partnership* (合肥華園股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC on 11 August 2017 with Mr. Wu Junbao acting as its general partner and 31 individuals acting as its limited partners, including Mr. Wu Junbao, Ms. Zhou Jiaju (spouse of Mr. Wu Junbao), Mr. Wu Shan (son of Mr. Wu Junbao), our two executive Directors (namely, Mr. Lu Zhen and Mr. Wang Yongkai), Ms. Wang Li (who resigned as our executive Director on 31 October 2018) and 26 other employees of our Group. Huayuan Partnership is one of the Registered Shareholders and holds 3.33% equity interest of Xinhua Group
"IFRSs"	the International Financial Reporting Standard(s)
"independent college"	a bachelor-degree level higher education institution established by a public university that provides formal education in bachelor-degree level or above in association with individuals or social organisations other than governmental institutions using non-state funds
"Independent Third Party(ies)"	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
"Kunming Health School"	Kunming Health School* (昆明市衛生學校), is a private secondary vocational school
"Listing"	the listing of the shares on the Main Board of the Stock Exchange on 26 March 2018
"Listing Date"	26 March 2018, the date on which the Company's Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Loan Agreement"	a loan agreement entered into by and among Xinhua Anhui, the PRC Operating Schools, and Xinhua Group dated 31 October 2017
"Main Board"	the Stock Exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"MOE"	the Ministry of Education of the PRC (中華人民共和國教育部)

"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Nanjing University of Finance & Economics"	Nanjing University of Finance and Economics* (南京財經大學)
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013, as amended, supplemented or otherwise modified from time to time
"PRC Consolidated Affiliated Entities"	namely, our School Sponsor and our PRC Operating Schools, each a consolidated affiliated entity of our Company
"PRC government" or "State"	the central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities)
"PRC Legal Advisors" or "PRC Legal Advisers"	Jingtian & Gongcheng, our legal advisors as to PRC Laws
"PRC Operating Schools"	our consolidated affiliated entities, namely, Xinhua University and Xinhua School
"private schools"	schools which are not administered by local, provincial or national governments
"Prospectus"	the prospectus of the Company dated 14 March 2018
"Registered Shareholders"	the shareholders of Xinhua Group, namely Mr. Wu Junbao, Mr. Wu Di and Huayuan Partnership
"Reporting Period"	the year ended 31 December 2019
"RMB" or "Renminbi"	Renminbi, the lawful currency for the time being of the PRC
"School of Clinical Medicine"	School of Clinical Medicine of Anhui Medical University* (安徽醫科大學臨床醫學院), an independent college of Anhui Medical University established under the laws of the PRC in 2003 as further described in "Business – Planned Additional Schools – School of Clinical Medicine" in the Prospectus
"School Sponsor's and Directors' Rights Entrustment Agreement"	the school sponsor's and directors' rights entrustment agreement entered into by and among Xinhua Group, the PRC Operating Schools, the directors of each PRC Operating School and Xinhua Anhui dated 31 October 2017

"School Sponsor's Power of Attorney"	the school sponsor's power of attorney executed by the School Sponsor in favor of Xinhua Anhui dated 31 October 2017
"school year"	the school year for all of our schools, which generally starts on September 1 of each calendar year and ends on June 30 of the next calendar year
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 8 March 2018
"Shareholders"	holder(s) of the Share(s)
"Shareholders' Rights Entrustment Agreement"	the shareholders' rights entrustment agreement entered into by and among the Registered Shareholders, the School Sponsor and Xinhua Anhui dated 31 October 2017
"Shares"	ordinary share(s) of HK$0.01 each in the share capital of our Company
"Sino-Foreign Regulation"	the Regulation on Sino-Foreign Cooperation in Operating Schools (中華人民共和國中外合作辦學條例), promulgated by the State Council in 2003 and amended on 18 July 2013
"Spouse Undertakings"	collectively, the spouse undertakings dated 31 October 2017 executed by Ms. Zhou Jiaju, the spouse of Mr. Wu Junbao, and by Ms. Wu Songping, the spouse of Mr. Wu Di, respectively
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Structured Contracts"	collectively, Structured Contracts I and Structured Contracts II
"Structured Contracts I"	collectively, the Business Cooperation Agreement, the Exclusive Technical Service and Management Consultancy Agreement, the Exclusive Call Option Agreement, the Equity Pledge Agreement, the Shareholders' Rights Entrustment Agreement, the School Sponsor's and Directors' Rights Entrustment Agreement, the School Sponsor's Powers of Attorney, the Directors' Powers of Attorney, the Shareholders' Powers of Attorney, the Loan Agreement and the Spouse Undertakings, further details of which are set out in the section headed "Structured Contracts" in the Prospectus
"Structured Contracts II"	collectively, the structured contracts dated 6 February 2018 entered into by Xinhua Xinjiang with, among others, our PRC Consolidated Affiliated Entities, the terms and conditions of which are the same as the Structured Contracts I in all material aspects

"Subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules. For the avoidance of doubt, the Subsidiaries include the PRC Operating Schools and the School Sponsor in the Prospectus
"substantial Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "USD"	United States dollars, the lawful currency for the time being of the United States
"Xinhua Anhui"	Anhui Ronghua Education Technology Co., Ltd.* (安徽融華教育科技有限公司), a limited liability company established under the laws of the PRC on 30 September 2017, which is wholly owned by Xinhua HK
"Xinhua BVI"	Xinhua Education International Limited (新華教育國際有限公司), a limited liability company incorporated under the laws of the BVI on 31 August 2017 and a wholly-owned subsidiary of our Company
"Xinhua Education Group"	Anhui Xinhua Education Group Co., Ltd.* (安徽新華教育集團有限公司, formerly known as Anhui Xinhua Education Development Co., Ltd.* (安徽新華教育發展有限公司)), a limited liability company established under the laws of the PRC on 30 March 2004, which is owned as to 38.4% by Mr. Wu Junbao, 51.6% by relatives of Mr. Wu Junbao and 10% by two companies held by Mr. Wu Junbao and his relatives
"Xinhua Group" or "School Sponsor"	Anhui Xinhua Group Investment Co., Ltd.* (安徽新華集團投資有限公司) (previously known as Anhui Xinhua Investment Co., Ltd.* (安徽新華投資有限公司)), a limited liability company established under the laws of the PRC on 1 September 1999, which is owned as to 95.70% by Mr. Wu Junbao, 0.97% by Mr. Wu Di and 3.33% by Huayuan Company. It is the school sponsor of Xinhua University and Xinhua School, and a consolidated affiliated entity of our Company
"Xinhua HK"	Hong Kong Xinhua Education Limited (香港新華教育有限公司), a limited liability company incorporated in Hong Kong on 8 September 2017 and a wholly owned subsidiary of our Company
"Xinhua School"	Anhui Xinhua School* (安徽新華學校), a private formal secondary vocational school that obtained approval from the Anhui Education Department for its establishment on 11 April 2002, of which the school sponsor's interest is wholly owned by Xinhua Group and a consolidated affiliated entity of our Company

"Xinhua University"	Anhui Xinhua University* (安徽新華學院), a private formal higher education institution whose predecessor is Anhui Xinhua Vocational College* (安徽新華職業學院) which obtained approval from The People's Government of Anhui Province (安徽省人民政府) for its establishment on 18 June 2000. The school sponsor's interest of Xinhua University is wholly owned by Xinhua Group and a consolidated affiliated entity of our Company
"Xinhua US"	Xinhua Education, Inc., a company incorporated in the State of Florida of the United States, with limited liability on 22 August 2017 and a wholly-owned subsidiary of our Company
"Xinhua WFOE"	Xinhua Anhui or Xinhua Xinjiang (as the case maybe), and collectively, "Xinhua WFOEs"
"Xinhua Xinjiang"	Xinjiang Ronghua Education Technology Co., Ltd.* (新疆融華教育科技有限公司), a limited liability company established under the laws of the PRC on 17 January 2018, which is wholly owned by Xinhua HK
"Xinjiang"	Xinjiang Uygur Autonomous Region, a provincial-level autonomous region of the PRC
"Yangtze River Delta"	comprises Jiangsu, Zhejiang, Anhui and Shanghai in the PRC
"%"	percent
"2016 Decision"	the Decision on Amending the Law for Promoting Private Education of the PRC (《關於修改<中華人民共和國民辦教育促進法>的決定》) approved by the Standing Committee of the National People's Congress in November 2016, which took effect on 1 September 2017

* *The English translation of company names in Chinese is for identification purposes only. If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.*

CHINA XINHUA EDUCATION GROUP LIMITED
中國新華教育集團有限公司