# 2019
# Annual Report

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1765

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

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

### Independent Non-executive Directors

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

### Audit Committee

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

### Nomination and Remuneration Committee

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

### Strategy and Development Committee

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

## AUTHORIZED REPRESENTATIVES

Mr. Li Tao
Ms. Leung Wing Han Sharon

## JOINT COMPANY SECRETARIES

Mr. Huang Zhongcai
Ms. Leung Wing Han Sharon

## REGISTERED OFFICE

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

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## LEGAL ADVISOR AS TO HONG KONG LAW

William Ji & Co. LLP (in association
with Tian Yuan Law Firm Hong Kong Office)
Suite 702, 7th Floor
Two Chinachem Central
26 Des Voeux Road Central
Central
Hong Kong

## AUDITOR

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

## COMPLIANCE ADVISOR

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

## PRINCIPAL SHARE REGISTRAR

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

## HONG KONG SHARE REGISTRAR

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

## PRINCIPAL BANKERS

Bank of China
China Minsheng Bank
Chengdu Rural Commercial Bank

## COMPANY'S WEBSITE

www.hopeedu.com

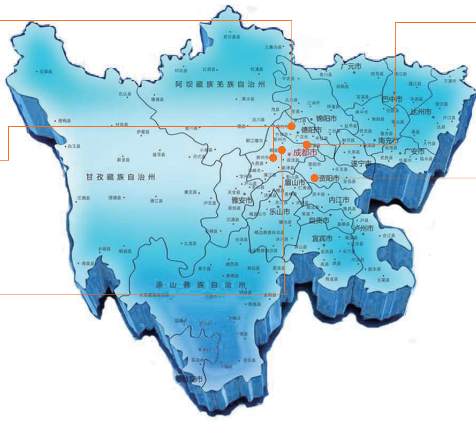
## STOCK CODE

1765

# OUR SCHOOLS

## OUR SCHOOLS

We have **14** Schools in **6** provinces, consisting of **5** Colleges & Universities, **7** Junior Colleges and **2** Technician Colleges



**Tianyi College**

- Junior College
- Acquired in 2011

**Sichuan Vocational college of Culture & Communication**

- Junior College
- Acquired in 2014

**Sichuan TOP IT vocational Institute**

- Junior College
- Acquired in 2017

**Southwest Jiaotong University Hope college**

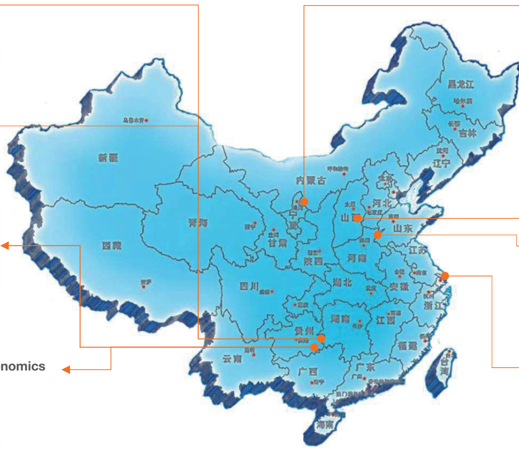
- College
- Built in 2009

**Sichuan Hope Automotive Vocational college**

- Junior College
- Built in 2013

**Sichuan Hope Automotive Technician College**

- Technician College
- Built in 2016



**Guizhou Vocational Institute of Technology**

- Junior College
- Built in 2016

**Guizhou Technician College of technology**

- Technician College
- Built in 2019

**College of Science and technology of Guizhou University**

- College
- Acquired in 2019

**Business College of Guizhou University of Finance and Economics**

- College
- Acquired in 2014

**Yinchuan University of Energy**

- University
- Acquired in 2019

**ShanXi Medical University Jinci College**

- College
- Acquired in 2014

**Hebi Automotive Engineering College**

- Junior College
- Acquired in 2019

**Suzhou TOP Institute of information & technology**

- Junior College
- Acquired in 2019

## SCHOOLS UNDER CONSTRUCTION

Chong Qing Digital and Technology College

JiangXi Zhangshu Medical college

Gansu Baiyin Minde vocational college

Dear Shareholders,

On behalf of the Board, I am pleased to present to the Shareholders the annual report of the Group for the year ended 31 December 2019.

## RESULTS OF THE COMPANY ACCOMPLISHED RAPID GROWTH IN 2019

For 2019, we recorded revenue of RMB1.33 billion and adjusted net profit of RMB0.50 billion, representing year-on-year growth of 29.3% and 57.0%, respectively. As of the year end, our student enrollment exceeded 140,000, 63% higher than the previous year. Meanwhile, we made several acquisitions, namely The College of Science and Technology of Guizhou University, Hebi Automotive Engineering Vocational College, Suzhou Top Institute of Information Technology, Yinchuan University of Energy, and Guizhou Technical College of Technology, a newly built college, adding 5 more schools in our portfolio. Currently, the Group has a total of 14 schools which are comprised of 5 undergraduate colleges, 7 higher vocational colleges, and 2 technical colleges. Simultaneously, we commenced the construction for Chongqing Digital Industry Vocational College (重慶數字產業職業學院), Jiangxi Zhangshu Vocational College of Traditional Chinese Medicine (江西樟樹中醫藥職業學院) and Gansu Mingde Vocational Education College (甘肅明德職業教育學院), laying a solid foundation for our future development. Moreover, through collaboration with North Bangkok University, we eventually established our Chinese International School, our first school in overseas. After listing, we continued to further our precision management, and our gross profit was boosted to 52% in 2019, 6.2% higher than the previous year. We paid much more attention to picking out and promotion of talents and enhancement of teaching quality. As such, we won wider recognition for our teaching quality and enrollment figures of some of our schools made a record high in 2019-2020. We also introduced information-based means to improve efficiency in management. High quality courses of our various schools have been uploaded online to materialize sharing of excellent educational resources within the Group.

## A NEW DECADE: MORE FRUITFUL YEARS TO COME

Subsequent to the founding of our first college, Southwest Jiaotong University Hope College, in 2009, in these over ten-year-time, our Group has emerged as a leader in the private higher education industry in the PRC. Our education services cover 6 provinces and have released a great number of high-quality professional technical talents to our society. Entering 2020, it marks a new chapter for the development of Hope Education. The State has enrolled a series of policies which give vigorous support to vocational education, unveiling a very bright future for this sector. Specifically, Hope Education Group takes vocational education as the core of our business and the encouragement given to private investment by the government has rendered a much larger room for our development.

Looking forward to the next decade, we shall uphold our original idea of education and training of people. We will continue to build a strong teaching team and put more efforts in practical training and upgrade of our existing schools. While we shall also expand the scale of our existing schools, more schools will also be built, so as to create conditions for sustainable development. In order to provide all-round development for students in our schools and meet their diversified needs, the Group will carry out more training on practical skills, open up the employment service market, provide a variety of education promotion channels, and improve the capability of students to obtain employment and serve the society. In early 2020, we signed an agreement for acquisition of INTI International University & Colleges in Malaysia (馬拉西亞英迪大學). After the acquisition, Hope Education will have the ability to provide special, undergraduate, master and doctorate grade of education, and will achieve the new pattern of collaborative development of domestic and overseas colleges of the Group.

# CHAIRMAN'S STATEMENT

## REALIZING OUR VISION BY PRAGMATISM, DEDICATION AND DILIGENCE

In 2020, Chinese higher education will enter into the popularized stage from the affordable stage. At present, China is gradually introducing a series of higher education enrollment expansion plans. As the leader of China's private higher education, Hope Education Group has the responsibility and ability to provide more and better higher education degrees for the society. We will uphold our spirit and style of pragmatism, dedication and diligence, and contribute to the development of China's higher education and the high-quality development of China's social economy.

## APPRECIATION

On behalf of the Board, I would like to extend my heartfelt gratitude to all local governments, all sectors of society and our Shareholders for their continued support for the development of Hope Education Group Co., Ltd. I would also like to thank all students and their parents. Also, I would like to express my sincere appreciation to the Board members, senior management as well as the management and teaching staff within our schools for their contribution and dedication.

**Hope Education Group Co., Ltd.**
*Chairman*
**Xu Changjun**
Hong Kong, 27 March 2020

| | For the year ended 31 December 2019 (in millions of RMB) | For the year ended 31 December 2018 (in millions of RMB) | Change (in millions of RMB) | Change (percentage) |
|---|---|---|---|---|
| Revenue | **1,331.38** | 1,029.52 | 301.86 | 29.3% |
| Gross profit | **674.50** | 467.24 | 207.26 | 44.4% |
| Adjusted gross profit[1] | **692.85** | 471.67 | 221.18 | 46.9% |
| Adjusted gross profit margin | **52.0%** | 45.8% | – | 6.2% |
| Net profit | **490.03** | 167.34 | 322.69 | 192.8% |
| Adjusted net profit[2] | **501.16** | 319.23 | 181.93 | 57.0% |
| Adjusted net profit margin | **37.6%** | 31.0% | – | 6.6% |

| | 2019/2020 school year[5] | 2018/2019 school year[5] | Change | Change (percentage) |
|---|---|---|---|---|
| New students enrolled[3] | **48,789** | 31,025 | 17,764 | 57.3% |
| Total student enrollment[4] | **140,125** | 86,033 | 54,092 | 62.9% |

Notes:

1. Adjusted gross profit is measured by (i) gross profit for the period after eliminating additional depreciation and amortization from temporary fair value adjustment of identifiable assets resulted from the acquisition of: Jinci College of Shanxi Medical University, Sichuan Vocational College of Culture & Communication, Sichuan TOP IT Vocational Institute, Suzhou Top Institute of Information Technology, Yinchuan University of Energy and Hebi Automotive Engineering Vocational College.

2. Adjusted net profit is measured by deducting (i) equity-settled share option expense; (ii) listing expense; (iii) additional depreciation and amortization from temporary fair value adjustment of identifiable assets resulted from the acquisition of Jinci College of Shanxi Medical University, Sichuan Vocational College of Culture & Communication, Sichuan TOP IT Vocational Institute, Suzhou Top Institute of Information Technology, Yinchuan University of Energy, Hebi Automotive Engineering Vocational College and The College of Science and Technology of Guizhou University; (iv) exchange gains; (v) finance cost accrued at amortized cost because of a over one year payment period for purchase of equity interest under the relevant agreement. The difference between the adjusted net profit of RMB314.80 million for 2018 in the results announcement for 2018 and the adjusted net profit of RMB319.23 million for 2018 in this report was RMB4.43 million, which was mainly due to deducting the additional depreciation and amortization from fair value adjustment resulted from acquisition of identifiable assets during the year. The Company considers that the deduction of additional depreciation and amortization from fair value adjustment resulted from acquisition of identifiable assets could eliminate potential impacts of items that the management do not consider to be indicative of the Group's operating performance, which in turns facilitates comparisons of operating performance from period to period and company to company.

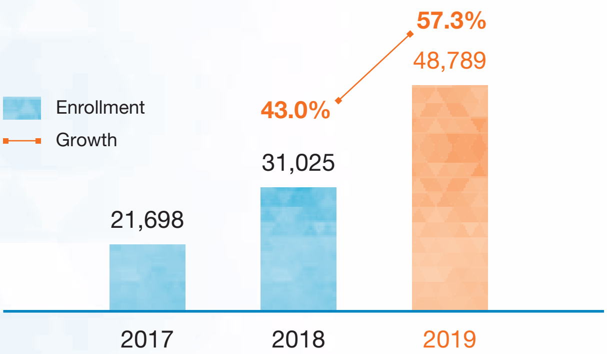
3. Number of new students enrolled as of 31 December 2019 includes 10,527 students enrolled in newly merged and acquired schools for the year, namely College of Science and Technology of Guizhou University, Hebi Automotive Engineering Vocational College, Suzhou Top Institute of Information Technology and Yinchuan University of Energy as of 31 December 2019. Number of students enrolled in original schools as of 31 December 2019 was 38,262.

4. Total number of students enrolled as of 31 December 2019 includes students of the original eight colleges, one technical college, as well as four newly merged and acquired schools and one newly established technical college but excludes students of continuing education.

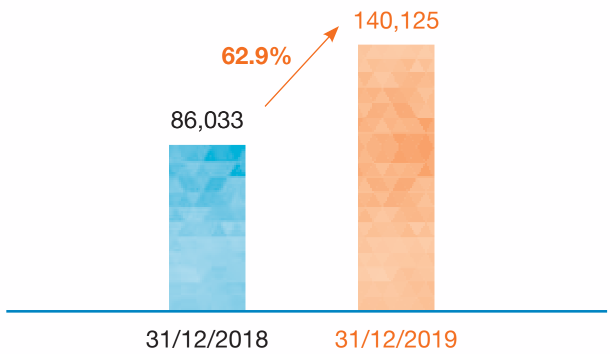
5. An academic year generally starts from 1 September of each calendar year to 31 August of the following calendar year.

## BUSINESS PERFORMANCE REVIEW

New students enrollment (unit: person)



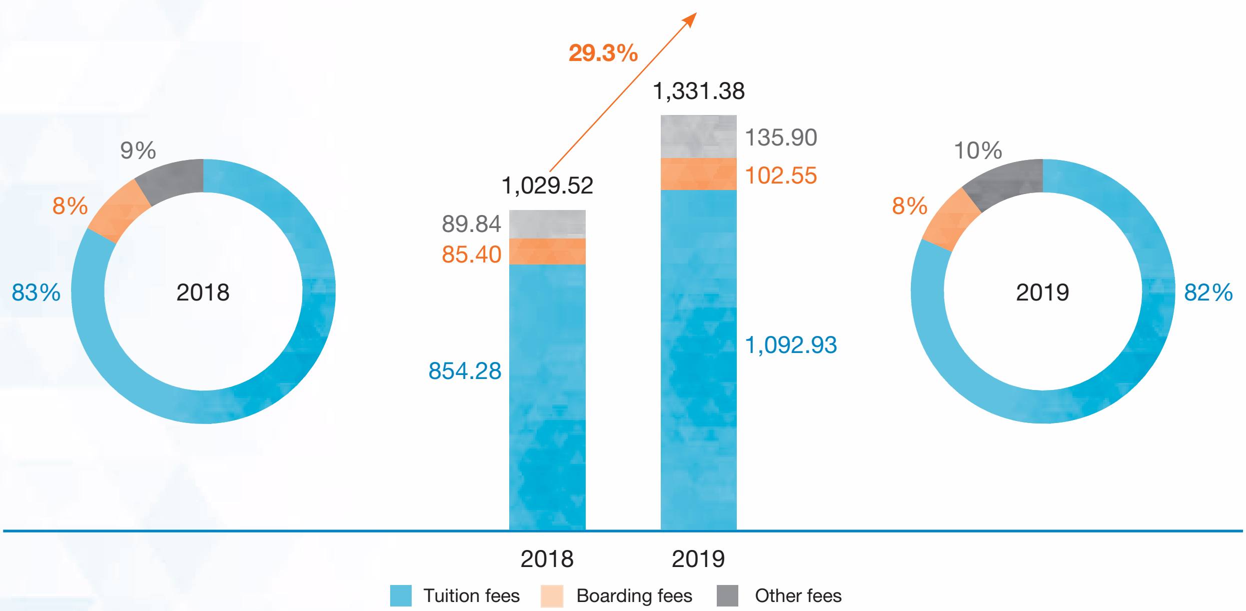

Total student enrollment (unit: person)




The new students enrollment and the total students enrollment of 2019 and 2019/12/31 all exclude 7,042 military veterans and other social students.

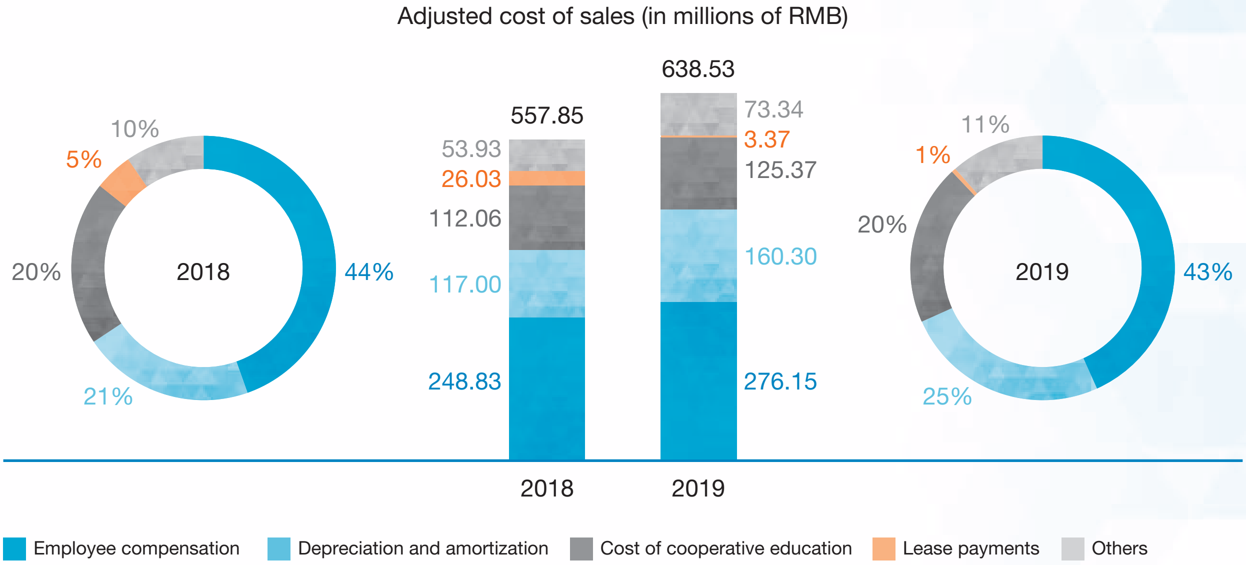
## REVENUE STRUCTURE

Revenue (in millions of RMB)




Tuition revenue accounted for 82% of total revenue, increased 27.9%, mainly due to number of students enrolled increased.

## COST STRUCTURE




Employee compensation of the Group amounted to RMB276.2 million in 2019, representing an increase of 11.0% from RMB248.8 million of the corresponding period in 2018. Such increase of 11% was sharply lower than the increase of 29% in revenue, mainly due to an increase in the Group's revenue, coupled with lean management and enhanced cost control, stabilize the compensation cost.

Depreciation and amortization of the Group amounted to RMB160 million in 2019, representing an increase of 37% from RMB117.0 million of the corresponding period in 2018, mainly due to (i) As a result of the initial application of IFRS 16,depreciation and amortization increased RMB29.80 million; (ii) RMB26.64 million in acquisition companies.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the Reporting Period, the Group has operated and invested in twelve higher education schools and two technical colleges in China, including (i) five independent colleges, namely, Southwest Jiaotong University Hope College, Jinci College of Shanxi Medical University, Business College of Guizhou University of Finance and Economics, College of Science and Technology of Guizhou University and Yinchuan University of Energy; (ii) seven junior colleges, namely Tianyi College, Sichuan Hope Automotive Vocational College, Sichuan Vocational College of Culture & Communication, Guizhou Vocational Institute of Technology, Sichuan TOP IT Vocational Institute, Hebi Automotive Engineering Vocational College and Suzhou Top Institute of Information Technology; and (iii) two technical colleges, namely, Sichuan Hope Automotive Technical College and Guizhou Technical College of Technology. As of 31 December 2019, the student enrollment in our schools was 140,125, representing a significant increase of 62.9% as compared with that on 31 December 2018. We have established a national enrollment network.

### Significant Events for the Reporting Period

(1) On 11 March 2019, the Company was included in a constituent stock of the index series such as Hang Seng Composite Index, Hang Seng Consumer Goods & Services Index and Hang Seng Stock Connect Hong Kong Index. The Company's inclusion in the market benchmark index represents the capital market's recognition of the Company.

(2) On 11 March 2019, the Company was included in the Hong Kong Stock Connect list under the Shenzhen-Hong Kong Stock Connect, which expanded shareholder base and trading liquidity of the Company, resulting in the enhancement of the Company's reputation in the capital market.

(3) On 8 May 2019, our Group and the People's Government of Jianyang City entered into the Project Investment Agreement in relation to investment in the overall relocation and reconstruction of Sichuan Vocational College of Culture & Communication (to prepare the establishment of an undergraduate college). In the future, our Group intends to develop the college into a vocational undergraduate university.

(4) On 10 July 2019, the acquisition of 70% equity interest of Jiexing Huilv, who is a joint sponsor of the College of Science and Technology of Guizhou University, was approved by way of poll at the extraordinary general meeting of our Company. Our Group holds 100% equity interest of Jiexing Huilv after acquisition of the remaining 30% equity interest on 23 July 2019. As such, our Group accounted for the investment in the College of Science and Technology of Guizhou University, which currently has almost 10,000 students, using equity method.

(5) On 29 July 2019, our Group entered into an agreement with an independent third party in relation to the acquisition of 100% interests in Hebi Automotive Engineering Vocational College, pursuant to which our Group shall complete the payment of the acquisition by way of cash consideration of RMB160 million (the remaining portion of the instalments of cash consideration after the repayment of the debts of the college before the Acquisition on behalf of the original shareholders shall be the consideration for the equity transfer) by installments for 95% equity interest, and the remaining 5% equity interest by way of cash consideration of RMB5 million. Hebi Automotive Engineering Vocational College in Henan covers an area of 320 mu and in the future, it will be developed into the first undergraduate college in Hebi City.

(6) On 23 August 2019, our Group entered into an agreement with an independent third party in relation to the acquisition of 100% interests in Suzhou Top Institute of Information Technology and Kunshan Technical School and Business School, pursuant to which our Group shall complete the payment of the acquisition by way of cash consideration of RMB376 million by installments and provision of loans of RMB24 million. Suzhou Top Institute of Information Technology and Kunshan Technical School and Business School are located in one of the "important development regions in China assembled by electronic information industries" in Kunshan City, Jiangsu Province and have over 5,000 students with an area of approximately 310 mu.

(7) On 23 August 2019, our Group completed the acquisition of the land use right of a new establishment project for a consideration of RMB20.55 million. The target land is located in Zhangshu city, Jiangxi Province, the capital city for Chinese traditional medicine, with an area of 201 mu. Our Group plans to establish a new technical college of traditional Chinese medicine in Zhangshu city to offer medicine, medical care and other majors in healthcare. The commencement of the Zhangshu project will help our Group to continue to expand its scale of operation and increase market penetration.

(8) On 29 August 2019, our Group entered into an agreement with independent third parties in relation to the acquisition of 100% sponsors' interests and equity interests in certain schools (including Yinchuan University of Energy) and companies, pursuant to which our Group tentatively plans to complete the payment of the acquisition by way of cash consideration of RMB550 million by installments. The target campus covers a total area of about 1,500 mu, with a school building area of about 480,000 square meters, and a total of over 15,000 students.

(9) In 2019, the Group successively launched the construction of three schools, namely, Chongqing Digital Industry Vocational and Technical College, Jiangxi Zhangshu Vocational College of Traditional Chinese Medicine and Gansu Baiyin Vocational and Technical College.

(10) In 2019, the enrollment scale of the Group's schools reached a new record, with 48,789 new students enrolled in the whole year, representing an increase of 57.3% over the previous year; the number of full-time students in all schools exceeded 140,000.

(11) In 2019, new breakthroughs were made in the development of professional capacity of all schools under the Group. Two majors of Southwest Jiaotong University Hope College, namely, transportation and civil engineering, and seven majors of Yinchuan University of Energy, namely, energy economy, chemical engineering and technology, etc., were recognized as provincial (district) first-class undergraduate specialty by the provincial (district) departments of education. The software major of Sichuan TOP IT Vocational Institute and the automobile electronic technology major of Hebi Automotive Engineering Vocational College were recognized as the key majors in the Action Plan for Innovation and Development of Higher Vocational Education by the MOE.

(12) In 2019, more than 4,000 people from schools under the Group participated in 280 competitions in China and abroad, winning 621 awards at or above the provincial level. Wang Yalan, Fan Xiaoyi and Chen Guanglei, students of Hope College, participated in the National University Students Mathematics Modeling Contest and won the national first prize.

(13) In 2019, the Group launched the school running evaluation and assessment system. Through conducting evaluation and assessment on 14 schools, the basic work of schools was strengthened, standardized management of schools was promoted and improvement of education and teaching quality and school running level was facilitated.

(14) In 2019, schools under the Group actively applied for provincial and national approved majors in response to social needs. Majors of rehabilitative technology (provincial approved), midwifery (provincial approved) applied by Sichuan Hope Automotive College and majors of nursing (provincial approved) and preschool education (national approved) applied by Sichuan TOP Institute were successively approved.

(15) In 2019, Hope College and Tianyi College were recognized by the MOE as the national 1+X certificate (academic certificates + several vocational skill level certificates) system pilot schools.

### Our Schools

As at 31 December 2019, we operated and invested five undergraduate colleges, seven junior colleges and two technical colleges. The table below sets out some details of our schools.

| School | Year Founded | Year of Joining our Group | Description |
|---|---|---|---|
| Southwest Jiaotong University Hope College | 2009 | 2009 | The college offered a total of 43 undergraduate and specialist majors. Of which, rail transportation and civil engineering majors take a leading position among the private colleges in the Western region. |
| Jinci College of Shanxi Medical University | 2002 | 2014 | The college offered a total of 13 undergraduate majors and is one of the twelve private undergraduate medical schools in China and is the only independent college in Shanxi that provides clinical medical education. |
| Business College of Guizhou University of Finance and Economics | 2004 | 2014 | The college offered a total of 28 undergraduate majors, featuring economics and management and finance majors. |
| College of Science and Technology of Guizhou University | 2001 | 2019 | The college offered 24 majors to train professional talents possessing knowledge and skills in information technology, science and finance. |
| Yinchuan University of Energy | 1999 | 2019 | The university offered 24 undergraduate majors, covering 8 disciplines, had 1 national key laboratory and 3 provincial experimental teaching demonstration centers. It is the only private university in Ningxia that can enroll foreign students. |
| Tianyi College | 1994 | 2011 | The college offered 21 majors and is one of the first private schools (including seven schools) in China and the first private school in Southwest China approved to be a formal private higher education institution. |
| Sichuan Hope Automotive Vocational College | 2013 | 2013 | The college offered 21 majors, specialising in automobile related majors. |

| School | Year Founded | Year of Joining our Group | Description |
|---|---|---|---|
| Sichuan Vocational College of Culture & Communication | 2005 | 2014 | The college offered over 30 majors, specialising in film, media and pre-school education majors. |
| Guizhou Vocational Institute of Technology | 2016 | 2016 | The college offered over 10 majors, specialising in pre-school education and healthcare majors. |
| Sichuan TOP IT Vocational Institute | 2000 | 2017 | The college offered 39 majors, specialising in computer and information and software technology majors and is the MOE approved national demonstration software vocational and technical college and the national high-skilled personnel training base for the electronic information industry. |
| Hebi Automotive Engineering Vocational College | 2011 | 2019 | The college offered over 40 majors to train professional talents possessing automobile related knowledge and skills. |
| Suzhou Top Institute of Information Technology | 2003 | 2019 | The college offered 30 majors, specialising in computer and information software technology majors. |
| Sichuan Hope Automotive Technical College | 2016 | 2016 | The college offered 15 majors to train professional talents possessing automobile related knowledge and skills. |
| Guizhou Technical College of Technology | 2019 | 2019 | The college offered 10 majors, specialising in pre-school education and healthcare majors. |

*Southwest Jiaotong University Hope College*

The first university (independent college) established by the Group in 2009, located in Chengdu, Sichuan Province, provides undergraduate and junior college education. The number of students in 2019-2020 academic year reached a new record; the one-time employment rate of 2019 graduates reached 95.7%, and the one-time employment rate of graduates exceeded 95% for seven consecutive years. Transportation and civil engineering were approved as the first- class undergraduate majors at the provincial level and recommended to be part of the national "Double-10,000 Program".

*Jinci College of Shanxi Medical University*

Jinci College of Shanxi Medical University is an independent undergraduate medical college in Shanxi Province. It is the only independent college of full-time undergraduate education for medical majors in Shanxi Province, and one of the only 12 private undergraduate medical colleges in China. Jinci College offers 13 majors, including clinical medicine, stomatology, anesthesiology and nursing. As of 31 December 2019, the registration rate of new students in Jinci College was 99.08%, which had been rising continuously since 2015 (93.17%), and reached a new high.

*Business College of Guizhou University of Finance and Economics*

Business College of Guizhou University of Finance and Economics is an independent undergraduate college of finance and economics in Guizhou Province. The college covers a total area of 1,038 mu and has over 18,000 full-time undergraduate students. In the past five years, the enrollment work of the Group has reached a new high, and the registration rate ranked in the forefront of similar schools and ranked first in the province. In 2019, the registration rate of new students reached 97.15%, a record high.

*College of Science and Technology of Guizhou University*

College of Science and Technology of Guizhou University is a comprehensive independent college in Guizhou Province. It has successively won the titles of national "Advanced Independent College (先進獨立學院)", national "Advanced Grassroots Party Organization with Excellent Performance (創先爭優先進基層黨組織)", national "8 March Red-banner Group (三八紅旗集體)", national "Advanced Education and Scientific Research Group under the 11th Five-Year Plan (「十一五」教育科研先進集體)". At present, it has 24 undergraduate majors, such as law, finance, Internet of things engineering, communication engineering, financial management, etc., covering seven disciplines, including literature, law, economics, management, science, engineering and art. As of 31 December 2019, the College of Science and Technology had more than 9,500 students, which set a new record.

*Yinchuan University of Energy*

Founded in October 1999, the undergraduate college is located in Ningxia and provides undergraduate and junior college education, with 24 undergraduate majors. The college covers an area of more than 1,500 mu and has a school building area of nearly 480,000 square meters. It has the largest library among higher education institutions in Ningxia in terms of single zone area, with more than 1 million books. The college has 1 national key laboratory, 3 provincial experimental teaching demonstration centers, 3 provincial off-campus practical education bases for college students, 9 practical teaching centers, 182 experimental training rooms and 65 stable off-campus practice bases for college students built with enterprises. The college is the intended cooperative college of the national "Internet + Made in China 2025" Plan for the Integration and Promotion of Industry and Education (「互聯網+中國製造2025」產教融合促進計劃項目) and is the only private higher education institution in Ningxia that can enroll foreign students.

*Tianyi College*

Founded in 1994, Tianyi College was one of the first private schools in China and the first private school in Southwest China approved by the MOE to be a formal private higher education institution, covering an area of more than 1,200 mu. As of 31 December 2019, the college was successfully approved with the second batch of national 1+X pilot certificates (website operation and promotion), established three provincial featured majors, one key featured major of Sichuan Association for Non-Government Education (四川省民辦教育協會), and 20 teacher scientific research projects. In respect of cooperation between the college and enterprises, the 2016 and 2018 Baoye order classes were established by the department of construction engineering and Baoye Group, and 1 set of teaching materials was jointly developed. In respect of practical training, 41 off-campus training bases were established.

*Sichuan Hope Automotive Vocational College*

Sichuan Hope Automotive Vocational College was the first formal higher education institution established by the Group in Ziyang, Sichuan Province in 2013. As of 31 December 2019, the number of students of the college achieved a new record high. In respect of training, the college equipped with more than 120 training rooms, such as automobile engine disassembly and assembly training room, automobile chassis disassembly and assembly training room and automobile structure training room. In respect of cooperation between the college and enterprises, the college successively signed school-enterprise cooperation agreements with more than 100 well-known enterprises such as Changzheng-BMW Group (長征寶馬集團), Sichuan Hyundai Automobile and CRRC Group. In respect of scientific research, majors of rehabilitative technology (provincial approved) and midwifery (provincial approved) applied by the college were approved in 2019.

*Sichuan Vocational College of Culture & Communication*

Sichuan Vocational College of Culture & Communication is a formal higher education institution located in Chengdu, Sichuan Province. As of 31 December 2019, the number of students of the college reached a record high. The employment rate of graduates in 2019 reached 96.45%, a new three-year high. In respect of scientific research, three majors of the college, namely “film and television multimedia technology, animation production technology and public cultural services and management”, have been listed in the quality enhancement plan for key featured majors of private higher education institutions in Sichuan Province. In respect of training, more than 100 enterprises were invited to the college this year to discuss the cooperation between the college and enterprises regarding the employment and entrepreneurship of students. At present, more than 30 enterprises have signed school-enterprise cooperation agreements.

*Guizhou Vocational Institute of Technology*

Guizhou Vocational Institute of Technology was the first formal higher education institution established by the Group in Guizhou Province in 2016, covering an area of more than 600 mu. As of 31 December 2019, there were more than 8,000 students. The college offers more than 10 majors, such as automobile technical service and marketing, automobile inspection and maintenance technology, automobile refitting technology, automobile new energy technology, urban rail transit operation and management, etc. In respect of practical training and cooperation between the college and enterprises, the college has built more than 50 experiment and training rooms, and signed school-enterprise cooperation agreements with more than 100 enterprises such as Shanghai Volkswagen, Wengfu Group, Chanhen Chemical, etc. and more than 20 county-level hospitals in Guizhou.

*Sichuan TOP IT Vocational Institute*

Founded in 2000, Sichuan TOP IT Vocational Institute is one of the first national demonstration software vocational and technical colleges approved by the MOE. It is also a national training base for skilled talents in short supply, a national high-skilled personnel training base for the electronic information industry, a national service outsourcing talents training base, and a training base for young technicians in the electronic information industry in Sichuan Province. In 2019, the employment rate of graduates has maintained at above 98% for years. The college is equipped with 7 on-campus innovative training bases for integration of industry and education, as well as more than 60 professional experimental training rooms with advanced equipment, among which the college’s Hwadee training base is one of the six “training bases for software engineering talents” recognized by the MOE.

*Hebi Automotive Engineering Vocational College*

It is the only formal automobile engineering higher education institution in Henan Province. In 2019, 67 projects above department level, 38 utility model patents, 15 education research achievement awards above provincial level, 2 municipal scientific and technological progress awards (second prize) were added, while 58 academic papers (including 6 core journals) and 28 textbooks were published. In 2019, the college signed strategic cooperation agreements with 15 enterprises, signed cooperation agreements with more than 40 large and medium-sized enterprises, and held 25 order classes to train talents for enterprises.

*Suzhou Top Institute of Information Technology*

The college is located in Kunshan, Jiangsu Province, with 30 majors. The year-end employment rate of 2019 graduates reached 97.62%. Focusing on school-enterprise cooperation and deepening the integration of industries and education, in 2019, the college and enterprises deepened cooperation by opening 32 customized classes in the mode of rotating the learning and work experience, as such, internship of more than 3,570 students were successfully completed. There were 63 internship projects, of which, 18 units cooperated for the first time. The college won the title of "excellent college for "government-school-enterprise" cooperation" for six consecutive years.

*Sichuan Hope Automotive Technical College*

Sichuan Hope Automotive Technical College is a full-time technical college established by the Group in 2016 with the approval of the People's Government of Sichuan Province and on the basis of Sichuan Hope Automotive Vocational College. As of 31 December 2019, the number of students of the college reached a new high. In respect of scientific research, the college offers 15 major groups, including automobile manufacturing and assembly, new energy vehicle inspection and maintenance regarding the markets before and after the automobile industry. In respect of cooperation between the college and enterprises, the college cooperated with more than 40 enterprises, including Sichuan Nanyun Automobile Group, Sichuan Hyundai Dymos Automotive System Co., Ltd., etc.

*Guizhou Technical College of Technology*

Guizhou Technical College of Technology is a full-time technical college established by the Group in 2019 with the approval of the People's Government of Guizhou Province and on the basis of Guizhou Vocational Institute of Technology. The establishment of Guizhou Technical College of Technology filled in the gap of private technical colleges in Guizhou Province, and became the first private higher education institution in Guizhou Province to successfully establish a technical college.

## STUDENT ENROLLMENT

Our Group believes the pragmatic teaching philosophy of its schools, its well-developed curriculum system, good-quality teachers as well as its high graduate employment rate help our Group to attract high-quality students who are seeking for their ideal employment.

| | Student Enrollment | | Change | |
|---|---|---|---|---|
| Schools | **As at 31 December 2019** | As at 31 December 2018 | **Change amount** | **Change in percentage** |
| Undergraduate College | **71,259** | 38,784 | 32,475 | 83.73% |
| Junior Colleges | **60,631** | 43,053 | 17,578 | 40.83% |
| Technical Education | **8,235** | 4,196 | 4,039 | 96.26% |
| Total | **140,125** | 86,033 | 54,092 | 62.87% |

Notes:

(1) The student enrollment information during the Reporting Period was based on the official records of the relevant PRC education authorities or the internal records of our Group's schools, as the case may be.

(2) Student enrollment for undergraduate colleges included 15,569 students from Yinchuan University of Energy and 9,959 students from College of Science and Technology of Guizhou University, both colleges joined the Group in 2019; student enrollment for junior colleges included 5,434 students from Hebi Automotive Engineering Vocational College and 5,012 students from Suzhou Top Institute of Information Technology.

# MANAGEMENT DISCUSSION AND ANALYSIS

## THE AVERAGE TUITION FEES AND BOARDING FEES

| | For the twelve months ended 31 December 2019 | For the twelve months ended 31 December 2018 |
|---|---|---|
| Tuition fees and boarding fees (RMB' 000) | **1,195,480** | 939,684 |
| Average number of student enrollment[1] | **108,100** | 80,864 |
| Average tuition fee and boarding fee per student (RMB)[2] | **11,059** | 11,621 |
| – Undergraduate | **12,000~19,800** | 12,000~16,080 |
| – College | **5,000~15,000** | 6,800~15,000 |
| – Technical | **5,000~9,800** | 5,000~6,500 |

## DORMITORY UTILIZATION RATE

| | For the twelve months ended 31 December 2019 | For the twelve months ended 31 December 2018 |
|---|---|---|
| Total number of student enrollment | **140,125** | 86,033 |
| Total capacity | **171,170** | 107,669 |
| Overall utilization rate | **82%** | 80% |

1 Average number of student enrolment is calculated by taking the average of the total number of students enrolled at the end of twelve months period and the total number of students enrolled at the end of the previous school year. The figure is calculated without taking account of students of College of Science and Technology of Guizhou University.

2 Average tuition fee and boarding fee per student is calculated by dividing tuition and boarding fees over the 12-month period by the average number of students enrolled. The average tuition fee and boarding fee decreased slightly, which was mainly due to differences in weightings for determination of the numerator and denominator during the calculation and lower fees charged by some newly acquired schools and colleges. In the future, with the Company's full involvement in the management of these new schools and colleges, the average fee charged will be increased. The calculation of average tuition fee did not take into account of College of Science and Technology of Guizhou University.

## INDUSTRY POLICY DIRECTION

In 2019, the Chinese Government placed unprecedented strategic importance on the development of vocational education. In February 2019, the State Council issued the Implementation Plan on Reform of National Vocational Education (《國家職業教育改革實施方案》) ("20 Articles on Vocational Education (職教20條)"), which put vocational education, especially higher vocational education, in a more prominent position in the reform and innovation of education and economic and social development. In March 2019, the State Council's "Government Work Report" proposed enrollment expansion to millions, and provided RMB100 billion from the unemployment insurance fund for skill upgrading and job transfer training for over 15 million people. In May 2019, the General Office of the State Council issued the Action Plan for Upgrading Vocational Skills (2019-2021) (《職業技能提升行動方案(2019-2021年)》), which proposed to carry out various subsidized vocational skills training with over 50 million attendances in three years from 2019 to 2021, including training with over 15 million attendances in 2019.

In a series of policies on the development of vocational education issued by the State, it is clearly proposed that the government should change its focus from "running" vocational education to "management and service", with a view to encouraging more diversified and market-oriented social education, and providing support on land, finance, tax, capital, enrollment indicators, etc. to the sponsors of vocational education. This series of policies are powerful and maneuverable, creating a broader development space for private higher education, which will benefit private higher education institutions in the medium and long term. Hope Education, as a group with higher vocational education as its principal part, seized the opportunity of national support for higher vocational education development, with the number of students enrolled in 2019-2020 academic year reaching a record high both in absolute number and in growth rate since our Group has been engaged in school running.

## OUTLOOK

The private higher education industry has entered the golden age of great development. The Company will seize this period of strategic opportunities by actively accelerating the development in a bid to expand the scale of school education on one hand, and continuously improving the quality of school education and the quality of talent cultivation to enhance the brand value of the colleges on the other, thereby realizing the synergy between speed and quality, as well as scale and efficiency, so as to ensure financial stability and sustainable development. To achieve this goal, our Group plans to pursue the following business strategies:

(1) Continuing to promote the internal growth of the Company. Improving the quality of school education, enhancing student enrollment scale and increasing the dormitory utilization rate are the important drivers for the steady development of our Group. To this end, our Group will continue to expand its education management committee comprising of experts in the higher education industry to strengthen the management of our Group's school education and teaching activities; actively introduce academic leaders to strengthen our Group's teaching team; by leveraging our Group's strengths in student recruitment that has accumulated over a decade, our Group will increase its application rate, enrollment rate and registration rate through expanding its enrollment scale; deepen its teaching reform and increase efforts in skills training in order to improve students' professional skills and employment capacity in a comprehensive manner; and provide comprehensive employment services and overseas study services for students to meet their multi-level development needs.

(2) Continuing to seek high-quality expansion opportunities. Mergers and acquisitions and new construction have always been the driving force of our Group's development. Our Group will capitalize on the merger and acquisition capacity accumulated over the years and timely merge with or acquire high-quality targets. Our Group will, in accordance with the needs of the national industrial development layout, establish higher vocational colleges in the industrial cluster region by fully relying on policy support.

## OTHER EVENTS

### Events after the Reporting Period

(i) On 28 February 2020, the Group executed an agreement to acquire Inti International University of Malaysia, at a consideration of US$140 million. Inti International University is the largest private higher education institution in Malaysia, with over 16,500 students enrolled. In 2018, its audited revenue was approximately RMB503 million and adjusted EBITDA of RMB95.48 million. This acquisition is subject to MOE granting all necessary approvals in connection to the transfer of ownership from the seller to the buyer as well as changes in the Directors. Subject to the completion of relevant approval, Inti International University will become one of the schools of the Group, its financial results will be consolidated into the Group's account.

(ii) In early 2020, the outbreak of novel coronavirus (COVID-19) did not have material impact on the principal business of the Company. The Group has put in place certain alternative action plans for the students during the campus closure period, which include implementation of on-line modules and website distance learning activities and shorten summer vocation. In view of the implementation of the above mentioned action plans, management has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to the date of this announcement. The Group will keep continuous attention on the situation of the COVID-19 outbreaks and react actively to its impacts on the operation and financial position of the Group and will reflect in the Group's 2020 interim and annual financial statements.

(iii) On 25 March, the board of the directors and the Company announced that it has resolved to change the financial year end date of the Company from 31 December to 31 August. Accordingly, the next financial year end date of the Group will be 31 August 2020. The Change is to align the financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. The board of the directors considers that the Change will facilitate the preparation of the consolidated financial statements of the Group and to better reflect the operational results of the Group for the financial year. To the best of its knowledge, belief and information, the board of directors does not foresee any material adverse impact on the Group resulting from the Change and there is no other significant matter that needs to be brought to the attention of the shareholders of the Company in this regard.

## FINANCIAL REVIEW

### Overview

For the year ended 31 December 2019, we recorded a revenue of RMB1,331.38 million, adjusted gross profit of RMB692.85 million and a gross profit of RMB674.50 million. For the year ended 31 December 2019, adjusted gross profit margin of the Group was 52.0%, increased by 6.2% as compared to 45.8% for the corresponding period in 2018. For the year ended 31 December 2019, gross profit margin was 50.7%, increased by 5.3% as compared to 45.4% for the corresponding period in 2018.

For the year ended 31 December 2019, adjusted net profit of the Group amounted to RMB501.16 million, representing an increase of RMB181.93 million or 57.0% as compared to the corresponding period in 2018. For the years ended 31 December 2019 and 31 December 2018, adjusted net profit margin was 37.6% and 31.0%, respectively.

For the years ended 31 December 2019 and 31 December 2018, net profit of the Group amounted to RMB490.03 million and RMB167.34 million, respectively. For the years ended 31 December 2019 and 31 December 2018, net profit margin of the Group was 36.8% and 16.3%, respectively.

### Revenue

For the year ended 31 December 2019, revenue of the Group reached RMB1,331.38 million, representing an increase of RMB301.86 million or 29.3% from RMB1,029.52 million of the corresponding period in 2018. Such increase is mainly due to (i) number of students enrolled increased in various schools; and (ii) the consolidation of Hebei project and Kunshan project into the Group's accounts at the end of August 2019 after completion of the acquisitions and the consolidation of Yinchuan project into the Group's accounts at the beginning of early September 2019.

### Cost of Sales

For the year ended 31 December 2019, adjusted cost of sales[1] of the Group amounted to RMB638.53 million, representing an increase of RMB80.68 million or 14.5% from RMB557.85 million of the corresponding period in 2018. For the years ended 31 December 2019 and 31 December 2018, cost of sales of the Group were RMB656.87 million and RMB562.29 million, respectively. Such increase is mainly due to (i) enhancement of teacher quality and teaching facilities as a result of increment in number of students enrolled in original schools of the Group, (ii) consolidation of various schools upon acquisition completed during the years leading to an increase in corresponding costs.

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1 Adjusted cost of sales is measured by cost of sales for the period after eliminating additional depreciation and amortization from temporary fair value adjustment of identifiable assets resulted from the acquisition of Jinci College of Shanxi Medical University, Sichuan Vocational College of Culture & Communication, Sichuan TOP IT Vocational Institute, Suzhou Top Institute of Information Technology, Yinchuan University of Energy and Hebi Automotive Engineering Vocational College.

### Gross Profit and Gross Profit Margin

For the year ended 31 December 2019, adjusted gross profit of the Group amounted to RMB692.85 million, representing an increase of RMB221.18 million or 46.9% from RMB471.67 million of the corresponding period in 2018. For the year ended 31 December 2019, adjusted gross profit margin of the Group was 52.0%, as compared to 45.8% for the corresponding period in 2018.

For the years ended 31 December 2019 and 31 December 2018, gross profit of the Group was RMB674.50 million and RMB467.24 million, respectively; with gross profit margin of 50.7% and 45.4%, respectively. Improvement on gross profit margin was mainly due to an increase in the Group's revenue, coupled with lean management and enhanced cost control. We believe that with consolidation of newly merged and acquired schools, the gross profit margin will be continuously enhanced.

### Other Income and Gains

For the year ended 31 December 2019, other income and gains of the Group amounted to RMB253.63 million, representing an increase of RMB42.12 million from RMB211.51 million of the corresponding period in 2018; which was mainly due to the increase in foreign exchange gains and interest income.

### Selling Expenses

For the year ended 31 December 2019, selling expenses of the Group amounted to RMB45.28 million, representing an increase of RMB24.48 million from RMB20.80 million of the corresponding period in 2018. Such increase was mainly due to the increment in marketing expense of student enrollment.

### Administrative Expenses

For the year ended 31 December 2019, administrative expenses of the Group amounted to RMB172.40 million, representing a decrease of RMB95.05 million from RMB267.45 million of the corresponding period in 2018. Such decrease was mainly due to (i) listing expense, (ii) decrease in equity-settled share option expenses, (iii) offset by consolidation of newly merged and acquired schools.

### Other Expenses

For the year ended 31 December 2019, other expenses of the Group amounted to RMB16.46 million, representing a decrease of RMB11.51 million from RMB27.97 million of the corresponding period in 2018. Such decrease was mainly due to certain one-off expenses like additional land costs of RMB23.12 million resulting from the disposal of the Xuefu Street project of Business College of Guizhou University of Finance and Economics that occurred in 2018 have not incurred during the year.

### Finance Costs

For the year ended 31 December 2019, finance cost of the Group amounted to RMB170.68 million, representing a decrease of RMB30.49 million from RMB201.17 million of the corresponding period in 2018. Such decrease was mainly due to (i) the decrease in interest expenses on bank and other borrowings; (ii) replacement of some high interest debts; (iii) additional finance cost of RMB106.6 thousand arisen as a result of adoption of the new IFRS 16 Leases (the figure would have been included in lease payables pursuant to IAS 7); (iv) provision of RMB6.60 million finance cost accrued at amortized cost because of the payment terms for the consideration of purchase of acquisition project of Yinchuan pursuant to the relevant agreement were beyond one year.

### Profits of the Reporting Period

For the year ended 31 December 2019, adjusted net profit of the Group amounted to RMB501.16 million, representing an increase of RMB181.93 million or 57.0% as compared to the corresponding period in 2018. For the years ended 31 December 2019 and 31 December 2018, adjusted net profit margin was 37.6% and 31.0%, respectively.

Increase in adjusted net profit was mainly due to (i) number of students enrolled increased in various schools; (ii) the consolidation of Hebei project and Kunshan project into the Group's accounts at the end of August 2019 after completion of the acquisitions and the consolidation of Yinchuan project into the Group's accounts at the beginning of early September 2019; (iii) acquisition of Guizhou Jiexing Huilv Air Service Consultant Services Limited (joint sponsor of the College of Science and Technology of Guizhou University), and the financial results of Jiexing Huilv were consolidated into the Group upon completion of acquisition at the end of July 2019.

For the years ended 31 December 2019 and 31 December 2018, net profit of the Group amounted to RMB490.03 million and RMB167.34 million, respectively. For the years ended 31 December 2019 and 31 December 2018, net profit margin of the Group was 36.8% and 16.3%, respectively.

### Capital Commitments

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

| | **As of 31 December 2019 in millions of RMB** | As of 31 December 2018 in millions of RMB |
|---|---|---|
| Contracted, but not provided for: | | |
| Property and equipment | **740.78** | 83.50 |

For the year ended 31 December 2019, the Group did not have any significant capital commitments authorised but not contracted for.

## LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2019, the Group had total cash and bank balances and structured deposit of RMB2,852.17 million, among which: (i) cash and cash equivalents amounted to RMB1,690.42 million (31 December 2018: RMB3,038.91 million), (ii) restricted cash deposit amounted to RMB158.78 million, and (iii) structured deposit in Minsheng Bank amounted to RMB1,002.97 million.

### Bank Loans and Other Borrowings

The Group's bank loans and other borrowings primarily consist of short-term working capital loans and long-term loans for constructing school buildings and facilities and merger and acquisitions. The Group supplements its working capital and finances its expenditure primarily through borrowings obtained from banks. As of 31 December 2019, the aggregate loan balance amounted to RMB2,596.89 million. All of our loans were denominated in RMB. As of 31 December 2019, the Group's bank loans and other borrowings bore effective interest rates ranging from 4.75% to 8.55% per annum. Without taking into account the loans arising from new schools acquired during 2019, other bank loans and other borrowings bore effective interest rates ranging from 4.75% to 7.5% per annum. The Group considers that, as subsequent loans bore by the entities of Yinchuan acquisition project being settled when due, effective interest rates per annum will be reduced, coupled with the relatively small amount of principle bearing high annual interest rates, effect on finance cost of the Group will not be material.

The Group's objective is to maintain a balance between the continued supply of funds and flexibility through the use of cash flows generated within our Group's operations and borrowings. The Group regularly reviews major funding positions to ensure adequate financial resources to meet its financial obligations.

### Current Ratio

As at 31 December 2019, current asset of the Group amounted to RMB3,508.07 million, consisted of bank balance of RMB1,740.42 million, structured deposit in Minsheng Bank of RMB1,002.97 million and other current asset of RMB764.68 million. Current liabilities of the Group amounted to RMB3,142.54 million, including accruals and other payables of RMB1,142.87 million, contract liabilities of RMB806.43 million, interest-bearing bank and other loans of RMB1,003.29 million and other current liabilities of RMB189.95 million. As at 31 December 2019, current ratio (current assets divided by current liabilities) of the Group was 1.12 (31 December 2018: 1.71).

### Contingent Liabilities

As of 31 December 2019, the Group did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

### Net Debt to Equity Ratio

Net debt to equity ratio equals to total interest-bearing bank loans and other borrowings of RMB2,596.89 million, net of cash and cash equivalents of RMB1,690.42 million, restricted cash deposit of RMB158.78 million and structured deposit in Minsheng Bank of RMB1,002.97 million at the end of the year, divided by total equity of RMB4,565.29 million at the end of the year. The Group's net debt to equity ratio increased from -21.8% as of 31 December 2018 to -5.6% as of 31 December 2019, primarily due to additional bank loans obtained by the Group in order to continuously invest in teaching facilities, equipment, construction of campus and reserves for merger and acquisition.

### Debt to Equity Ratio

As at 31 December 2019, debt to equity ratio of the Group (calculated by dividing total interest- bearing bank loans by total equity) is approximately 56.9% (31 December 2018: 51.2%).

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

## CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is the foundation to create more value for the Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for Shareholders.

Throughout the year ended 31 December 2019, the Company has complied with the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors for the year ended 31 December 2019.

Having made specific enquiry with all Directors of the Company, it is confirmed that all Directors have complied with the required standard set out in the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2019.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

## PAYMENT OF FINAL DIVIDEND

The Board has resolved to proposed payment of a final dividend of RMB0.023 per share for the year ended 31 December 2019. The final dividend will be declared in RMB and paid in Hong Kong dollars. The exchange rate adopted for such translation is the average middle exchange rate published by the People's Bank of China of the five business days prior to the declaration of final dividend (i.e. from 20 March 2020 to 26 March 2020) (HK$1.0 to RMB0.9136). Accordingly, the amount of the final dividend payable in Hong Kong dollars will be HK$0.025 per share.

The final dividend will be paid on or about Monday, 20 July 2020 to the shareholders whose names appear on the register of members of the Company on Wednesday, 8 July 2020.

## CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the annual general meeting to be held on Monday, 29 June 2020, the register of members of the Company will be closed from Tuesday, 23 June 2020 to Monday, 29 June 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to be qualified to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 22 June 2020.

In order to be qualified for the final dividend, the register of members of the Company will be closed from Monday, 6 July 2020 to Wednesday, 8 July 2020 (both days inclusive), during which period no transfer of shares will be registered. All share transfer documents accompanied by the relevant share certificates must be lodged with the Group's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 July 2020.

## USE OF PROCEEDS

The net proceeds from the Listing (after deducting the underwriting fees and related expenses) amounted to approximately RMB2,704.86 million. As at 31 December 2019, the Group has utilized a total of RMB1,138.73 million of the net proceeds in accordance with the allocation set out in the Prospectus.

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

| Use | % of total | Net proceeds RMB (million) | Amount utilized (as at 31 December 2019) RMB (million) | Amount unutilized (as at 31 December 2019) RMB (million) |
|---|---|---|---|---|
| Used to acquire higher education schools and establish new campus for the acquired schools | 40% | 1,081.94 | 185.00 | 896.94 |
| Used to construct new buildings for education purposes | 30% | 811.46 | 142.27 | 669.19 |
| Used to repay bank loans and other borrowings | 20% | 540.97 | 540.97 | – |
| Used for working capital and general corporate purposes | 10% | 270.49 | 270.49 | – |
| Total | 100% | 2,704.86 | 1,138.73 | 1,566.13 |

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group and discussed matters in relation to auditing, internal control and financial reporting. The audit committee of the Company has reviewed the Group's annual results and consolidated financial statements for the year ended 31 December 2019.

## SCOPE OF WORK FOR ANNUAL RESULTS ANNOUNCEMENT BY AUDITORS

The financial information set out in this annual report does not constitute the Group's audited accounts for the year ended 31 December 2019, but represents an extract from the consolidated financial statements for the year ended 31 December 2019 which have been audited by the auditor of the Company, Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. The financial information has been reviewed by the audit committee of the Company and approved by the Board.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS AND SENIOR MANAGEMENT

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

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

| Name | Age | Date of Joining the Group | Position | Date of Appointment | Responsibility |
|---|---|---|---|---|---|
| XU Changjun (徐昌俊) | 63 | 18 April 2012 | Chairman,<br>Executive Director | 2 February 2018<br>13 March 2017 | Responsible for overseeing the affairs of the Board |
| WANG Huiwu (汪輝武) | 47 | 5 January 2005 | Executive Director,<br>Chief Executive Officer,<br>President | 13 March 2017<br>2 February 2018<br>2 February 2018 | Responsible for implementing Board resolutions, overall strategic planning and operational management of the Group |
| LI Tao (李濤) | 50 | 5 December 2010 | Executive Director,<br>Chief Strategy Officer | 13 March 2017<br>2 February 2018 | Responsible for business development and mergers and acquisitions of the Group |
| WANG Degen (王德根) | 49 | 15 October 2007 | Non-executive Director | 13 March 2017 | Responsible for monitoring overall management and Strategic planning of the Group |
| LU Zhichao (呂志超) | 49 | 13 March 2017 | Non-executive Director | 13 March 2017 | Responsible for monitoring overall management and strategic planning of the Group |
| TANG Jianyuan (唐健源) | 52 | 7 September 2016 | Non-executive Director | 13 March 2017 | Responsible for monitoring overall management and strategic planning of the Group |
| ZHANG Jin (張進) | 61 | 14 July 2018 | Independent<br>Non-executive Director | 14 July 2018 | Responsible for monitoring the Group and providing independent advice |

| Name | Age | Date of Joining the Group | Position | Date of Appointment | Responsibility |
|---|---|---|---|---|---|
| CHEN Yunhua (陳雲華) | 68 | 14 July 2018 | Independent Non-executive Director | 14 July 2018 | Responsible for monitoring the Group and providing independent advice |
| GAO Hao (高皓) | 37 | 14 July 2018 | Independent Non-executive Director | 14 July 2018 | Responsible for monitoring the Group and providing independent advice |

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

| Name | Age | Date of First Joining the Group | Position | Date of Appointment | Roles and Responsibilities |
|---|---|---|---|---|---|
| WANG Huiwu (汪輝武) | 47 | 5 January 2005 | Chief Executive Officer, President | 2 February 2018<br>2 February 2018 | Responsible for implementing Board resolutions, overall strategic planning and operational management of the Group |
| JIANG Lin (蔣林) | 53 | 18 February 2016 | Chief Operating Officer, Executive Vice President | 2 February 2018<br>2 February 2018 | Responsible for overseeing the day-to-day operations of the Group |
| LOU Qunwei (婁群偉) | 51 | 12 January 2005 | Senior Vice President | 2 February 2018 | Responsible for the teaching and management of students |
| LI Tao (李濤) | 50 | 5 December 2010 | Chief Strategy Officer | 2 February 2018 | Responsible for business development and mergers and acquisitions of the Group |
| HE Xuan (何旋) | 50 | 20 June 2017 | Chief Financial Officer | 2 February 2018 | Responsible for finance management of the Group |
| HUANG Zhongcai (黃忠財) | 35 | 1 July 2014 | Vice President, Joint Company Secretary | 14 November 2018<br>15 March 2018 | Responsible for capital operations and investor relations |
| MA Jialing (馬嘉靈) | 36 | 1 July 2006 | Vice President | 14 November 2018 | Responsible for the administrative management of the Group |

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

**XU Changjun (徐昌俊)**, aged 63, is the chairman of the Board and an executive Director. Mr. Xu has been appointed as chairman of the Company since 2 February 2018 and executive Director of the Company since 13 March 2017. Mr. Xu has been a director of Hope Education since April 2012; the chairman of Hope Education since September 2016; a council member of Southwest Jiaotong University Hope College since June 2016; and a director of WFOE since 19 January 2018.

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

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

**WANG Huiwu (汪輝武)**, aged 47, is an executive Director, the chief executive officer and the president. Mr. Wang has been appointed as executive Director of the Company since 13 March 2017 and chief executive officer and president of the Company since 2 February 2018. Mr. Wang has been the chairman of Sichuan Mayflower Professional College (四川五月花專修學院) since December 2004; a director and the president of Hope Education since October 2007; a supervisor of Sichuan Guojian Investment Limited since December 2007; a director of Southwest Jiaotong University Hope College since January 2009; an executive director of Shanghai Shurui Investment Consultant Limited since September 2011; a director of Tianyi College since September 2011; a director of Ziyang Maysunshine Education Investment Limited since November 2012; the chairman of the council of Sichuan Hope Automotive Vocational College since May 2013; a director of Business College of Guizhou University of Finance and Economics since September 2014; a director of Jinci College of Shanxi Medical University since December 2014; the chairman of the council of Sichuan Hope Automotive Technical College since January 2017; and a director of WFOE since 19 January 2018.

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

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

**LI Tao (李濤)**, aged 50, is an executive Director and the chief strategy officer. Mr. Li has been appointed as executive Director of the Company since 13 March 2017 and chief strategy officer of the Company since 2 February 2018. Mr. Li has served as a director of Tianyi College since September 2011; a director of Business College of Guizhou University of Finance and Economics since August 2014; a senior vice president of Hope Education since October 2014; a director of Jinci College of Shanxi Medical University since December 2014.

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

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

**WANG Degen (王德根)**, aged 49, is an non-executive Director. Mr. Wang has been appointed as an executive Director of the Company since 13 March 2017. Mr. Wang has served as the general manager of Neijiang Wanqian Feed Co., Ltd. (內江萬千飼料有限公司) since September 1999, Neijiang Wanqian Feed Co., Ltd. is principally engaged in process, production and sales of feed; the chairman of Sichuan Tequ Investment Group Limited since August 2005; a director of Hope Education since October 2007; the chairman of Hope Education since April 2012; the president of West Hope since March 2013; the chairman of Sichuan Dekang Farming and Technology Co., Ltd. (四川德康農牧科技有限公司) since April 2014, Sichuan Dekang Farming and Technology Co., Ltd. is principally engaged in sales of livestock and research and development of pigs farming; an authorized representative of Hope Education since May 2015; a council member of Southwest Jiaotong University Hope College since June 2016.

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

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

## DIRECTORS AND SENIOR MANAGEMENT

**LU Zhichao (呂志超)**, aged 49, is a non-executive Director. Mr. Lu has been appointed as a non-executive Director of the Company since 13 March 2017. Mr. Lu has served as the managing director of the Renminbi Mezzanine Fund at China Everbright Limited since 3 June 2013.

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

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

**TANG Jianyuan (唐健源)**, aged 52, is a non-executive Director. Mr. Tang has been appointed as non-executive Director of the Company since 13 March 2017. Mr. Tang has served as standing vice president and vice chairman of Sichuan Tequ Investment since December 2010 and a director of Hope Education since September 2016.

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

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

**ZHANG Jin (張進)**, aged 61, is an independent non-executive Director. Mr. Zhang has been appointed as independent non-executive Director of the Company since 14 July 2018. Mr. Zhang has served as the chief accountant of West China Second University Hospital of Sichuan University since March 2015; the vice chairman of the Health Accounting Branch of China Health Economics Association since December 2015; a review expert in government procurement bidding of the Ministry of Finance since January 2013; the vice president of the Sichuan Health Economics Association since June 2016; a senior accountant review expert of Sichuan Province since February 2003; an internal control consultant of Sichuan Province since June 2017; a professor of Hospital Management Master of Business Administration of Sichuan University (四川大學) since June 2016; and a training expert in hospital management consulting in the PRC.

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

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

**CHEN Yunhua (陳雲華)**, aged 68, is an independent non-executive Director. Mr. Chan has been appointed as independent non-executive Director of the Company since 14 July 2018. Mr. Chan has been hired by the Ministry of Public Security as the head of Public Security Policeman Training Center (公安幹警培訓基地) since March 2017.

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

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

**GAO Hao (高皓)**, aged 37, has been appointed as an independent non-executive Director of the Company since July 2018. Dr. Gao has been the director of the Global Family Business Research Center (全球家族企業研究中心) at the Tsinghua University National Finance Research Institute (清華大學國家金融研究院) since September 2015. He was the director of the Strategic Cooperation and Development Office (戰略合作與發展辦公室) and the executive director of the China Financial Case Center (中國金融案例中心) of Tsinghua University PBC School of Finance (清華大學五道口金融學院) from December 2014 to February 2020 and from June 2013 to December 2014, respectively.

Dr. Gao's research and teaching center on corporate governance, corporate finance, family business and wealth management. He has authored 100+ articles in academic journals and finance magazines and has authored, edited or translated 15 books. He has been appointed as a member of Global Future Council and Expert Network of World Economic Forum, a council member of Think Tank Council of All-China Federation of Industry and Commerce (全國工商聯智庫委員會) since February 2019,a council member and research fellow of the China Enterprise Reform and Development Society (中國企業改革與發展研究會) since December 2018 and September 2017 respectively, and a member of STEP (國際信託與資產規劃學會) since May 2018. He has been the editor-in-chief of the Family Business Governance Series (家族企業治理叢書) and Family Wealth Succession Series (家族財富傳承叢書) since December 2010, and an co-editor of Wealth Management Journal since January 2019.

Dr. Gao obtained a bachelor's degree from Tsinghua University in July 2005. He received a bachelor's degree in economics from Peking University in July 2007 and a doctorate degree in management science from Tsinghua University in June 2012. He was awarded the Corporate Director Certificate from Harvard Business School in July 2015, and completed Mergers and Acquisitions Program and People, Culture, and Performance Program at the Graduate School of Business of Stanford University in August 2017, Corporate Level Strategy Program at the Harvard Business School in March 2018, Venture Capital Program at the Wharton School in May 2018, and High Performance Board at the IMD Business School in October 2018.

Dr. Gao has served as an independent non-executive director of Modern Media Holdings Limited (HKSE stock code: 72) since August 2016, and Xinyuan Real Estate Co., Ltd. (NYSE stock code: XIN) since May 2018.

## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**WANG Huiwu (汪輝武)**, aged 47, is the chief executive officer and the president. For the biography of Mr. Wang, see "– Directors".

**JIANG Lin (蔣林)**, aged 53, is the chief operating officer and the executive vice president. Mr. Jiang has been appointed as chief operating officer and executive vice president since 2 February 2018. Mr. Jiang has served as a standing vice president of Hope Education since February 2016.

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

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

**LOU Qunwei (婁群偉)**, aged 51, is the senior vice president. Ms. Lou has been appointed as the senior vice president of the Company since 2 February 2018. Ms. Lou has served as a supervisor of Shanghai Shurui Investment Consultant Limited since September 2011; a director of Tianyi College since September 2011; a director of Sichuan Hope Automotive Vocational College since May 2013; the chairman of the council and legal representative of Sichuan Vocational College of Culture & Communication since July 2014; the senior vice president of Hope Education since October 2014; a council member of Sichuan Hope Automotive Technical College since January 2017; and a director of Sichuan Guojian Investment Limited since May 2017.

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

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

**LI Tao (李濤)**, aged 50, is the chief strategy officer. For the biography of Mr. Li, see "– Directors".

**HE Xuan (何旋)**, aged 50, is the chief financial officer. Mr. He has been appointed as chief financial officer of the Company since 2 February 2018. Mr. He has served as the chief financial director of Hope Education since June 2017.

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

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

**HUANG Zhongcai (黃忠財)**, aged 35, is the Vice President and Joint Company Secretary. Mr. Huang was appointed as the Vice President of the Company with effect from 14 November 2018 and as the Joint Company Secretary of our Company with effect from 15 March 2018. Mr. Huang has been the Vice President of Hope Education since July 2014.

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

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

**MA Jialing (馬嘉靈)**, aged 36, is the Vice President of the Group. Ms. Ma was appointed as the Vice President of the Company since 14 November 2018. Ms. Ma was appointed as the director of security management department and member of presidents' meeting (總裁辦公會) of Hope Education since October 2014 and formulated a logistics support system, a charge management and student status management system under group management. In 2016 and 2017, she was awarded as an outstanding employee of Hope Education Group for two consecutive years. She was appointed as the general manager of Chengdu Muma Car Rental Co., Ltd (成都木馬汽車租賃有限公司) since October 2014.

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

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

## CHANGE IN DIRECTOR'S INFORMATION

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

## JOINT COMPANY SECRETARY

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

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

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

## PRINCIPAL ACTIVITIES

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

## RESULTS AND BUSINESS REVIEW

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 125 of this annual report.

A fair review of the business of the Group during the year and its future development and outlook, important events affecting the Company that have occurred during the year ended 31 December 2019, an analysis of the Group's performance during the year using financial key performance indicators, and the Company's environment policy and performance as required under Schedule 5 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this annual report, which also constitute part of this report.

## COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

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

During the year ended 31 December 2019, the Group was not aware of material non-compliance with the relevant laws and regulations that have a significant impact on the business and operations of the Group.

## EMPLOYEES

As of 31 December 2019, the Group had approximately 7,711 faculty members. For details of the gender and age distribution and loss rate of employees, see the "Environmental, Social and Governance Report" of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

Our customers are primarily our students. For the year ended 31 December 2019, the percentage of revenue attributable to the Group's five largest customers combined were less than 30% of our revenue.

Our suppliers primarily comprise book suppliers, teaching equipment vendors, equipment and materials vendors and the university with which we have a partnership agreement. For the year ended 31 December 2019, the percentage of purchases attributable to the Group's five largest suppliers combined were less than 30% of our cost of revenue.

## RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers to meet its immediate and long-term goals. The Group maintains a good relationship with employees, suppliers and customers. During the year ended 31 December 2019, there were no material and significant dispute between the Group and its employees, suppliers and/or customers.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

- Our business and results of operations depend on the level of tuition and boarding fees we are able to charge and our ability to maintain and raise tuition and boarding fee levels.
- The private higher education business is relatively new and may not gain wide acceptance in China.
- We face intense competition in the PRC higher education industry, which could lead to adverse pricing pressure, reduced operating margins, loss of market share, departures of qualified employees and increased capital expenditure.

- We may not be able to execute our growth strategies successfully or effectively manage our growth, which may hinder our ability to capitalize on new business opportunities.

- We may not be able to successfully establish new schools pursuant to our proposed timeline or at all. We may not be able to successfully execute our plan to establish an university in the United States.

- We may not be able to successfully integrate businesses that we acquire, which may cause us to lose the anticipated benefits from such acquisitions and to incur significant additional expenses.

- We are subject to uncertainties brought by the Amendment of Law for Promoting Private Education of the PRC (《中華人民共和國民辦教育促進法修正案》) and the Draft Revision of the Implementation Rules on the Law for Promoting Private Education of the PRC (the Draft for Review) (《中華人民共和國民辦教育促進法實施條例(修正草案)(送審稿)》).

- We may not be able to register the independent colleges as for-profit private schools or complete relevant procedures or obtain the government registrations under the current form of the MOE Draft for Comments.

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

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

## DIVIDEND POLICY

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

# REPORT OF DIRECTORS

## PAYMENT OF FINAL DIVIDEND

The Board has resolved to proposed payment of a final dividend of RMB0.023 per share for the year ended 31 December 2019. The final dividend will be declared in RMB and paid in Hong Kong dollars. The exchange rate adopted for such translation is the average middle exchange rate published by the People's Bank of China of the five business days prior to the declaration of final dividend (i.e. from 20 March 2020 to 26 March 2020) (HK$1.0 to RMB0.9136). Accordingly, the amount of the final dividend payable in Hong Kong dollars will be HK$0.025 per share.

The final dividend will be paid on or about Monday, 20 July 2020 to the shareholders whose names appear on the register of members of the Company on Wednesday, 8 July 2020.

## ANNUAL GENERAL MEETING

The forthcoming AGM will be held on 29 June 2020. Notice convening the AGM and other relevant documents will be published and dispatched to the Shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

To determine the entitlement to attend and vote at the annual general meeting to be held on Monday, 29 June 2020, the register of members of the Company will be closed from Tuesday, 23 June 2020 to Monday, 29 June 2020 (both days inclusive), during which period no transfer of shares will be registered. In order to be qualified to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 22 June 2020.

In order to be qualified for the final dividend, the register of members of the Company will be closed from Monday, 6 July 2020 to Wednesday, 8 July 2020 (both days inclusive), during which period no transfer of shares will be registered. All share transfer documents accompanied by the relevant share certificates must be lodged with the Group's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 July 2020.

## SHARE CAPITAL

Details of changes in the share capital of the Company during the year are set out in Note 27 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2019 are set out in Note 13 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

Movements in reserves of the Company during the year ended 31 December 2019 are set out in Note 39 to the consolidated financial statements.

Our reserves available for distribution to the Shareholders consist of share premium. Under the Companies Law of the Cayman Islands and subject to compliance with the Articles of Association, the share premium account may be applied by the Company for paying distributions or dividends to the Shareholders if immediately following the date on which the distribution or dividend is proposed to be paid, we will be able to pay off our debts as they fall due in the ordinary course of business. As of 31 December 2019, the Company's reserve available for distribution to Shareholders amounted to approximately RMB2,703.7 million.

## DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this annual report were:

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

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

**Independent Non-Executive Directors**
Mr. Zhang Jin
Mr. Chen Yunhua
Dr. Gao Hao

Pursuant to Article 16.18 of the Articles of Association, Mr. Wang Huiwu, Mr. Wang Degen and Mr. Xu Changjun shall retire by rotation and, being eligible, have offered themselves for re-election at the AGM.

## DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

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

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

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As at 31 December 2019, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors and chief executive(s) of the Company is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

| Name of Director | Position | Capacity/Nature of Interest | Number of Shares Held | Long Position/ Short Position | Approximate Percentage of Shareholding in the Company as at 31 December 2019 |
|---|---|---|---|---|---|
| Wang Huiwu (汪輝武)[1] | Executive Director | Interest in controlled corporation | 4,140,948,240 | Long Position | 62.11% |
| Wang Degen (王德根)[2] | Non-executive Director | Interest of spouse | 4,183,190,943 | Long Position | 62.75% |

Notes:

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

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

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive(s) of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the Pre-IPO Share Options granted to the Directors, at no time during the year was the Company, or its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other corporations.

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

To the knowledge of any of directors or chief executives of the Company, as at 31 December 2019, the following persons (other than the directors or chief executives of the Company) or entities have an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO:

| Name of Shareholder | Capacity/Nature of Interest | Number of Shares Held | Long Position/ Short Position | Approximate Percentage of Shareholding in the Company as at 31 December 2019 |
|---|---|---|---|---|
| Hope Education Investment Limited[1] | Beneficial interest | 4,140,948,240 | Long Position | 62.11% |
| Maysunshine Limited[1] | Interest in controlled corporation | 4,140,948,240 | Long Position | 62.11% |
| Tequ Group A Limited[1] | Interest in controlled corporation | 4,140,948,240 | Long Position | 62.11% |
| Tequ Group (Hong Kong) Company Limited[1] | Interest in controlled corporation | 4,183,190,943 | Long Position | 62.75% |
| Shanghai Yi Zeng Management Co., Ltd. (上海乙增管理有限公司)[1] | Interest in controlled corporation | 4,183,190,943 | Long Position | 62.75% |
| Sichuan Tequ Investment[1] | Interest in controlled corporation | 4,183,190,943 | Long Position | 62.75% |
| West Hope[1] | Interest in controlled corporation | 4,183,190,943 | Long Position | 62.75% |
| Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司)[1] | Interest in controlled corporation | 4,183,190,943 | Long Position | 62.75% |
| Zhang Qiang (張強)[1] | Interest in controlled corporation | 4,183,190,943 | Long Position | 62.75% |
| Chen Yuxin (陳育新)[1] | Interest in controlled corporation | 4,183,190,943 | Long Position | 62.75% |
| Zhao Guiqin (趙桂琴)[1] | Interest in controlled corporation | 4,183,190,943 | Long Position | 62.75% |

| Name of Shareholder | Capacity/Nature of Interest | Number of Shares Held | Long Position/ Short Position | Approximate Percentage of Shareholding in the Company as at 31 December 2019 |
|---|---|---|---|---|
| CEL Maiming[2] | Interest in controlled corporation | 183,394,354 | Long Position | 2.75% |
| CEL Huiling Investment (Shanghai) Co., Limited (光控匯領投資(上海)有限公司) ("CEL Huiling")[2] | Interest in controlled corporation | 421,494,412 | Long Position | 6.32% |
| CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司)[2] [4] | Interest in controlled corporation | 421,494,412 | Long Position | 6.32% |
| China Everbright Limited[2] [3] [4] | Interest in controlled corporation | 852,861,338 | Long Position | 12.79% |
| Honorich Holdings Limited[3] | Interest in controlled corporation | 852,861,338 | Long Position | 12.79% |
| Datten Investments Limited[3] | Interest in controlled corporation | 852,861,338 | Long Position | 12.79% |
| China Everbright Holdings Co., Limited (中國光大集團有限公司) ("CE Hong Kong")[3] | Interest in controlled corporation | 852,861,338 | Long Position | 12.79% |
| China Everbright Group Ltd. (中國光大集團股份公司) ("China Everbright Group")[3] | Interest in controlled corporation | 852,861,338 | Long Position | 12.79% |
| Central Huijin Investment Limited (中央匯金投資有限責任公司) ("Central Huijin")[3] | Interest in controlled corporation | 852,861,338 | Long Position | 12.79% |
| Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥))[4] | Interest in controlled corporation | 183,394,354 | Long Position | 2.75% |
| Shanghai CEL Jiaxin Equity Investment Management Co., Limited (上海光控嘉鑫股權投資管理有限公司)[4] | Interest in controlled corporation | 183,394,354 | Long Position | 2.75% |
| Chongqing CEL Equity Investment Management Limited (重慶光控股權投資管理有限公司)[4] | Interest in controlled corporation | 183,394,354 | Long Position | 2.75% |
| Yixing CEL[4] | Interest in controlled corporation | 183,394,354 | Long Position | 2.75% |
| CEL Capital Prestige Asset Management Co., Ltd. (首譽光控資產管理有限公司)[4] | Interest in controlled corporation | 183,394,354 | Long Position | 2.75% |

Notes:

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

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

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

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

(2) Star Leap Limited and China Everbright Financial Investments Limited, an investment holding company, each directly holds approximately 3.01% and 3.46% of the Company respectively, are indirectly wholly-owned by China Everbright Limited.

Pearl Glory Global Limited, an investment holding company holding approximately 6.21% of the Company, is wholly-owned by CEL Maiming. CEL Huiling is the general partner of CEL Maiming. Accordingly, each of CEL Maiming and CEL Huiling is deemed to be interested in the Shares held by Pearl Glory Global Limited under the SFO.

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

Glory Aurora Limited, an investment holding company directly holding approximately 3.57% of the Company, is wholly-owned by Zhuhai Maiwen. The general partner of Zhuhai Maiwen is CEL Huiling, a wholly-owned subsidiary of CEL Venture Capital (Shenzhen) Co., Limited (光大控股創業投資(深圳)有限公司), which is in turn indirectly wholly-owned by China Everbright Limited.

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

(3) China Everbright Limited was owned as to approximately 49.39% by Honorich Holdings Limited and 0.358% by Everbright Investment & Management Limited (光大投資管理有限公司), respectively. Honorich Holdings Limited was wholly-owned by Datten Investments Limited, and each of Everbright Investment & Management Limited (光大投資管理有限公司) and Datten Investments Limited was in turn wholly-owned by CE Hong Kong, which was in turn wholly-owned by China Everbright Group. China Everbright Group was owned as to approximately 55.67% by Central Huijin and was indirectly wholly-owned by the State Council of the PRC.

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

(4) Beijing CEL Anya Investment Centre (Limited Partnership) (北京光控安雅投資中心(有限合夥)) is a limited partnership holding approximately 40.82% of the limited partnership interest in CEL Maiming.

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

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

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

Save as disclosed above, as at 31 December 2019, the Directors or chief executives of the Company are not aware of any other person or entity who has an interest or short positions in Shares or underlying Shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept under Section 336 of the SFO.

## 2018 PRE-IPO SHARE OPTION SCHEME

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

### Purpose

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

### Who may Join

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

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

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

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

### Maximum Number of Shares

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

### Maximum Entitlement Of Each Participant

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

### Vesting and Exercise Period

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

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

### Amounts Payable for Application or Acceptance of Share Options

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

### Exercise Price

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

### Duration of the 2018 Pre-IPO Share Option Scheme

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

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

As of 31 December 2019, the number of relevant Shares subject to outstanding options granted under the 2018 Pre-IPO Share Option Scheme is 446,422,454 Shares, representing approximately 6.7% of the issued share capital of the Company. As of 31 December 2019, our Company had granted Pre-IPO Share Options to 321 Participants under the 2018 Pre-IPO Share Option Scheme.

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

| Grantees | Number of Share Options: As at 1 January 2019 | Granted during the period | Exercised during the period | Lapsed during the period | As at 31 December 2019 | Date of grant | Exercise period | Exercise Price per share option RMB per share | Vesting period | The weighted average closing price of the Company's shares: Share price of the Company immediately before the date of grant of share options RMB per share | Immediately before the date of exercise RMB per share | As at the date of exercise of share options HK$ per share |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | | | | |
| Xu Changjun | 1,288,871 | - | - | - | 1,288,871 | 18 March 2018 | From 2 February 2019 to 2 August 2038 | 0.9311 | From 18 March 2018 to 2 February 2019 | - | - | - |
| | 859,247 | | | | 859,247 | | From 2 February 2020 to 2 August 2020 | | From 18 March 2018 to 2 February 2020 | | | |
| Li Tao | 6,659,167 | - | - | - | 6,659,167 | 18 March 2018 | From 2 February 2019 to 2 August 2038 | 0.9311 | From 18 March 2018 to 2 February 2019 | - | - | - |
| | 2,685,148 | | | | 2,685,148 | | From 2 February 2020 to 2 August 2020 | | From 18 March 2018 to 2 February 2020 | | | |
| **Sub-total** | **11,492,433** | - | - | - | **11,492,433** | | | | | - | - | - |
| **Employees (including Senior Management)** | | | | | | | | | | | | |
| 78 individuals | 142,102,188 | - | - | - | 142,102,188 | 18 March 2018 | From 2 February 2019 to 2 August 2038 or From 2 February 2020 to 2 August 2020 | 0.9311/1.131 | From 18 March 2018 to 2 February 2019 or From 18 March 2018 to 2 February 2020 | - | - | - |
| **Other Grantees** | | | | | | | | | | | | |
| 232 individuals | 298,357,040 | - | - | 5,529,207 | 292,827,833 | 18 March 2018 | From 2 February 2019 to 2 August 2038 or From 2 February 2020 to 2 August 2020 | 0.9311/1.131 | From 18 March 2018 to 2 February 2019 or From 18 March 2018 to 2 February 2020 | - | - | - |
| **Total** | **451,951,661** | - | - | **5,529,207** | **446,422,454** | | | | | - | - | - |

As of 31 December 2019, save for disclosed above, no share options were exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme.

*Note: Details of the 2018 Pre-IPO Share Option Scheme adopted on 18 March 2018 are set out in note 28 to the consolidated financial statements of this annual report.*

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

For the year ended 31 December 2019, the Company or its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

## BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Group on 31 December 2019 are set out in Note 25 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENTS

Save for the 2018 Pre-IPO Share Option Scheme as described in the above, no equity-linked agreements were entered into by the Company for the year ended 31 December 2019.

## DIRECTORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Continuing Connected Transactions" in this report, for the year ended 31 December 2019, none of the Directors or entities connected with the Directors, had a material interest, whether directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company, its controlling company, any of its subsidiaries or fellow subsidiaries was a party.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2019.

## CONTRACTS OF SIGNIFICANCE ENTERED INTO WITH CONTROLLING SHAREHOLDERS

During the year ended 31 December 2019, save as disclosed in the section headed "Continuing Connected Transactions" in this report, no other contract of significance was entered into by the Company or any of its subsidiaries with the Controlling Shareholders of the Company or its subsidiaries.

During the year ended 31 December 2019, there was no contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder of the Company or any of its subsidiaries.

## CONTINUING CONNECTED TRANSACTIONS

In the related party transactions disclosed in Note 33 to the consolidated financial statements, the following transactions constitute continuing connected transactions of the Company and need to be disclosed in this annual report under Chapter 14A of the Listing Rules. The Company confirms that it has been in compliance with disclosure requirements under Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions.

1. **Property Leasing Framework Agreement**

Since 2014 and during the year ended 31 December 2019, our schools have leased certain properties to certain of the 30%-controlled companies of Mr. Wang Huiwu and the then subsidiaries of Hope Education, which became subsidiaries of Tequ Education following the division as discussed in "History – Reorganization of our Consolidated Affiliated Entities – The Division of Hope Education for Delineation of Business" in the Prospectus. Our Company, Mr. Wang Huiwu and Tequ Education entered into a property leasing framework agreement (the "**Property Leasing Framework Agreement**") on 20 July 2018 in respect of the leasing of land, buildings, ancillary facilities from us to Tequ Education and/or its associates. The following table sets forth a summary of the Property Leasing Framework Agreement.

| Lessee | Lessor | Duration of the Lease | Description of the properties leased | Historical amounts for the year ended 31 December | | | | Proposed annual cap for the year ended 31 December | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (in millions of RMB) | | | | | | |
| | | | | 2016 | 2017 | 2018 | 2019 | 2018 | 2019 | 2020 |
| Mr. Wang Huiwu and Tequ Education and/ or their respective associates | Our Company | For a period of three years commencing on the Listing Date; if neither party raises any objection and subject to the regulatory requirements in the place where our Shares are listed, the term will be automatically renewed for a further term of three years upon expiry. | Land area of approximately 0.3 million sq.m.; gross floor area of approximately 0.2 million sq.m. | 24.6 | 23.3 | 25.9 | 20.0 | 27.0 | 29.0 | 31.0 |

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

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

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

The amounts of rent paid or payable by Tequ Education and/or its associates to us for the years ended 31 December 2016, 2017, 2018 and 2019 were RMB24.6 million, RMB23.3 million, RMB25.9 million and RMB20.0 million, respectively. The annual caps were estimated based on the rental receivable as determined with reference to (i) the historical amounts; and (ii) as advised by our property valuer, according to market practice, landlords would usually offer a discounted rental rate for the first couple of years in long-term leases of large sites, after which rental rates would be gradually increased over the course of the term of the lease. Our property valuer has confirmed that (i) the terms and conditions of the Property Leasing Framework Agreement are made on normal commercial terms, fair and reasonable and on market rate; and (ii) the total amount payable to us under the Property Leasing Framework Agreement is no less favorable than those offered by Independent Third Parties.

2. **Equipment Procurement Framework Agreement**

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

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

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

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

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

The procurement costs payable by our Group to Mayflower Precision Instrument for the four years ended 31 December 2016, 2017, 2018 and 2019 were RMB4.89 million, RMB3.78 million, RMB5.53 million and nil, respectively.

The maximum amount of procurement costs payable to Mayflower Precision Instrument for each of the three years ended 31 December 2018, 2019 and 2020 shall not, based on the aforesaid pricing mechanism, exceed the caps set out below:

| | **Proposed annual cap for the year ended 31 December** | | |
|---|---|---|---|
| | **2018** | **2019** | **2020** |
| | | (RMB'000) | |
| Total amount | 6,000 | 6,000 | 6,000 |

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

*Confirmation from Independent Non-executive Directors*

The independent non-executive Directors of the Company, having considered the summary of continuing connected transactions of the Group as recorded during the year, have confirmed that the above continuing connected transactions for the year ended 31 December 2019 were entered into by the Group (i) in the ordinary and usual course of its business; (ii) on normal commercial terms or better terms; and (iii) in accordance with the relevant agreements governing them and on terms that were fair and reasonable and in the interests of the Company and the Shareholders as a whole.

*Confirmation from the Independent Auditor*

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

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

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

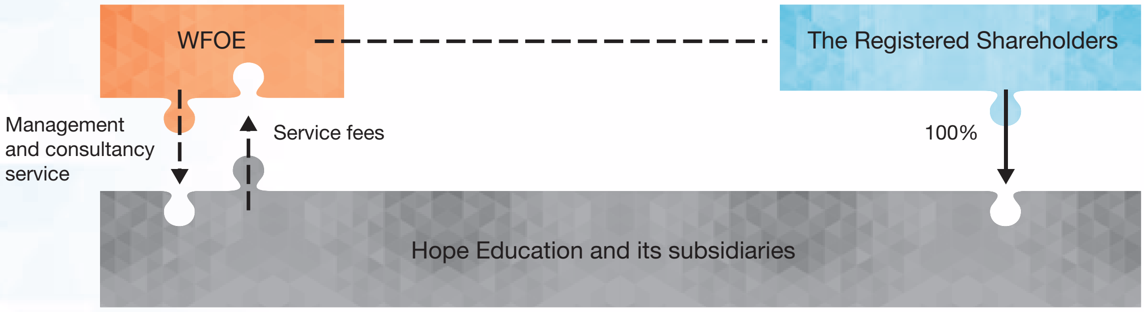
## 3. Contractual Arrangements

*Reasons for Entering into Contractual Arrangements*

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

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

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




Notes:

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

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

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

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

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

*Listing Rules Implications*

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

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

*Summary of the Material Terms of the Contractual Arrangements*

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

(1) Exclusive Management Consultancy and Business Cooperation Agreement

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

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

(2) Exclusive Call Option Agreement

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

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

(3) Equity Pledge Agreement

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

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

(4) Powers of Attorney

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

(5) Shareholders' Undertaking

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

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

*Business Activities of Consolidated Affiliated Entities*

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

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

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

| | The Importance and Financial Contribution to the Group | | |
|---|---|---|---|
| | Income | Net profit | Total assets |
| | For the year ended 31 December 2019 | For the year ended 31 December 2019 | As at 31 December 2019 |
| The importance and financial contribution to the Group | 96.77% | 82.48% | 82.34% |

*Income and Assets Involved in the Contractual Arrangements*

The following table sets forth the (i) income; and (ii) the total assets involved in the consolidated affiliated entities for the year ended 31 December 2019, which will be consolidated into the Group's financial statements in accordance with the contractual arrangements:

| | Income<br>RMB million | Assets<br>RMB million |
|---|---|---|
| Consolidated Affiliated Entities | 43,053 | 1,917,223 |

*Governing Framework*

(1) Higher education

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

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

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

(2) Plan to comply with the Qualification Requirement

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

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

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

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

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

As of the Latest Practicable Date, there is no further development regarding this plan.

(3) Foreign Investment Law

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our independent non-executive Directors have reviewed the contractual arrangements and confirmed for the year ended 31 December 2019, that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the contractual arrangements, (ii) no dividends or other distributions have been made by our consolidated affiliated entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the consolidated affiliated entities during the relevant financial period are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of the Shareholders as a whole.

The Board has reviewed the overall performance and compliance of the contractual arrangements for the year ended 31 December 2019.

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

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

*Material Changes*

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

*Unwind the Contractual Arrangements*

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

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

As of 31 December 2019, the total area of land used by our schools which had not obtained the land use right certificates and has not paid  the land transfer fee decreased as compared with the previous year. The lack of land use right certificates is due to the insufficient quota for the land for educational use as a result of government's zoning policies. The competent authorities are completing their internal procedures to modify the zoning policies and to issue the land use right certificates.

As of 31 December 2019, 44.55% of the total housing area of our schools had not yet obtained the building ownership certificates, primarily due to the lack of construction planning permit (建設工程規劃許可證), construction commencement permit (施工許可證) and acceptance inspection upon completion (竣工驗收), having not passed fire control assessment and/or environmental protection inspection assessment as required under relevant PRC laws and regulations. We have implemented extensive and comprehensive measures to rectify the above defects in our owned buildings and buildings under construction. We are in the process of applying to relevant government authorities for the relevant outstanding certificates and permits and are closely following up with the government authorities with respect to our applications.

In addition, as of 31 December 2019, some of our schools did not fully meet the regulatory requirements in terms of the teaching and administrative building area per student or the site area per student.

As of 31 December 2019, we were not aware of any actual or contemplated actions, claims or investigations by any government authorities or third parties against us with respect to the defects of the properties mentioned above. The Directors are of the view that the defects of our owned properties above will not have any significant and adverse effect on our operations and financial conditions as a whole.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2019 are presented in Note 33 to the consolidated financial statements. The Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

## NON-COMPETE UNDERTAKING

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

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

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

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

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

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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

## REMUNERATION POLICIES AND DIRECTORS' REMUNERATION

As of 31 December 2019, the Group had approximately 7,711 faculty members. Employee compensation includes salary, bonus and stock option schemes. The Group provides pre-employment training for new teachers to help new teachers integrate into the teaching staff faster and better. The remuneration packages of the Group's employees are determined by reference to individual qualifications, experience, performance, contribution to the Group and current market standards. In accordance with PRC laws and regulations, the Group participates in employee social security schemes managed by local governments for employees, including housing, pensions, medical insurance, maternity insurance and unemployment insurance.

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

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

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

None of the Directors has waived any remunerations for the year ended 31 December 2019.

## RETIREMENT AND EMPLOYEE BENEFIT PLANS

Details of the Company's retirement and employee benefit plans are set out in Note 2.4 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

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

## PUBLIC FLOAT

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

## FINANCIAL SUMMARY

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

## USE OF NET PROCEEDS

The net proceeds from the Listing (after deducting the underwriting fees and related expenses) amounted to approximately RMB2,704.86 million. As at 31 December 2019, the Group has utilized a total of RMB1,138.7 million of the net proceeds in accordance with the allocation set out in the Prospectus.

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

| Use | % of total | Net proceeds RMB (million) | Amount utilized (as at 31 December 2019) RMB (million) | Amount unutilized (as at 31 December 2019) RMB (million) |
|---|---|---|---|---|
| Used to acquire higher education schools and establish new campus for the acquired schools | 40% | 1,081.94 | 185.00 | 896.94 |
| Used to construct new buildings for education purposes | 30% | 811.46 | 142.27 | 669.19 |
| Used to repay bank loans and other borrowings | 20% | 540.97 | 540.97 | – |
| Used for working capital and general corporate purposes | 10% | 270.49 | 270.49 | – |
| Total | 100% | 2,704.86 | 1,138.73 | 1,566.13 |

The net proceeds from Listing not utilized by the Company amounts to approximately RMB1,566.1 million for the year ended 31 December 2019. For the unutilized net proceeds as of 31 December 2019, the Company intends to use them in the same manner and proportions as described in the Prospectus. The completion time of the use of the net proceeds will be determined based on the future business development of the Company.

## TAX CONCESSION AND EXEMPTION

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

## PROFESSIONAL TAX ADVICE RECOMMENDED

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

## DIRECTORS' PERMITTED INDEMNITY PROVISION

According to the Memorandum and Articles of Association of the Company, each Director, auditor or other senior management of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or legal liabilities incurred or suffered by him as the Director, auditor or other senior management of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favor or in which he is discharged. During the year ended 31 December 2019, the Company has maintained appropriate liability insurance for directors and the management of the Group.

## SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

For details of the Group's significant events after the reporting period please refer to "Management Discussion and Analysis – Events after the Reporting Period "of this annual report.

## AUDITOR

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

In addition, the Company has not changed its auditor in the past three years.

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

Hong Kong, 27 March 2020

## CORPORATE GOVERNANCE PRACTICES

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

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

## THE BOARD

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

**Executive Directors**

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

**Non-executive Directors**

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

**Independent non-executive Directors**

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

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

## DELEGATION BY THE BOARD

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

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

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

## CORPORATE GOVERNANCE FUNCTIONS

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

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

Pursuant to the Articles of Association, Mr. Wang Degen, Mr. Wang Huiwu and Mr. Xu Changjun shall retire by rotation and, being eligible, have offered themselves for re-election at the AGM.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

## BOARD DIVERSITY POLICY

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

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

## DIRECTORS' AND SENIOR MANAGEMENT'S INSURANCE

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

## BOARD MEETINGS

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

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

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

During the year ended 31 December 2019, 11 board meetings and 2 general meetings were held and the attendance of each Director at these meetings is set out in the table below:

| | Number of board meetings attended/held | Number of general meetings attended/held |
|---|---|---|
| **Directors** | | |
| **Executive Directors** | | |
| Mr. Xu Changjun | 11/11 | 2/2 |
| Mr. Wang Huiwu | 11/11 | 2/2 |
| Mr. Li Tao | 11/11 | 0/2 |
| **Non-executive Directors** | | |
| Mr. Tang Jianyuan | 11/11 | 0/2 |
| Mr. Lu Zhichao | 11/11 | 0/2 |
| Mr. Wang Degen | 11/11 | 0/2 |
| **Independent non-executive Directors** | | |
| Mr. Zhang Jin (Appointed on 14 July 2018) | 11/11 | 0/2 |
| Mr. Chen Yunhua (Appointed on 14 July 2018) | 11/11 | 0/2 |
| Dr. Gao Hao (Appointed on 14 July 2018) | 10/11 | 0/2 |

## BOARD COMMITTEES

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

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

## AUDIT COMMITTEE

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

The primary duties of the Audit Committee are as follows:

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

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

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

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

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

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

      (i) any changes in accounting policies and practices;

      (ii) major judgmental areas;

      (iii) significant adjustments resulting from audit;

      (iv) the going concern assumptions and any qualifications;

      (v) compliance with accounting standards; and

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

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

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

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

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

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

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

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

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

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

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

The unaudited financial results of the Group for the six months ended 30 June 2019 and the audited financial results for the year ended 31 December 2019 have been reviewed by the Audit Committee, and the Audit Committee considers that the relevant financial statements have been prepared in accordance with applicable accounting standards and requirements and have been fully disclosed. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and the selection and appointment of external auditors. In addition, the Audit Committee has reviewed the Group's internal controls and has monitored the Group's risk management and internal control systems.

During the year ended 31 December 2019, 2 meetings of the Audit Committee was held and the attendance of each director at the meeting is set out in the table below:

| Members | Number of Audit Committee meetings attended/held |
|---|---|
| **Non-executive Directors** | |
| Mr. Tang Jianyuan | 2/2 |
| Mr. Lu Zhichao | 2/2 |
| **Independent non-executive Directors** | |
| Mr. Zhang Jin (Appointed on 14 July 2018) | 2/2 |
| Mr. Chen Yunhua (Appointed on 14 July 2018) | 2/2 |
| Dr. Gao Hao (Appointed on 14 July 2018) | 1/2 |

## NOMINATION AND REMUNERATION COMMITTEE

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

The composition and written terms of reference of the Nomination and Remuneration Committee are in compliance with the provisions of the Corporate Governance Code. The Company held one meeting of the Nomination and Remuneration Committee during the year ended 31 December 2019, and the attendance of each director at the meeting is set out in the table below:

| Members | Number of Nomination and Remuneration Committee meetings attended/held |
|---|---|
| **Executive Directors** | |
| Mr. Wang Huiwu | 1/1 |
| **Independent Non-executive Directors** | |
| Mr. Chen Yunhua | 1/1 |
| Dr. Gao Hao | 1/1 |

## DIRECTOR NOMINATION POLICY

Procedure for Nomination of Directors

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

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

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

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

5. Conduct verification on information provided by the candidate.

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

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

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

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

1. Reputation.

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

3. Time available.

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

During the year ended 31 December 2019, no Director has been appointed.

## STRATEGY AND DEVELOPMENT COMMITTEE

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

During the year ended 31 December 2019, 1 meeting of the Strategy and Development Committee was held and the attendance of each Director at the meeting is set out in the table below:

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

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

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Details of the remuneration paid or payable to the Directors for the year ended 31 December 2019 are set out in Note 8 to the consolidated financial statements.

The remuneration paid or payable to the members of the senior management for the year ended 31 December 2019, the biography of which are included in the section headed "Directors and Senior Management" of this annual report, are in the following ranges:

| Remuneration band(s) (RMB) | Number of individual |
|---|---|
| 0 to 500,000 | 3 |
| 500,000 to 1,000,000 | 7 |

## MODEL CODE FOR SECURITIES TRANSACTIONS

On 14 July 2018, the Company adopted the Model Code as the Group's code of conduct governing the dealings in the securities by the directors and relevant employees. Upon specific enquiry, all Directors confirmed that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2019.

## CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

The Company periodically organises training courses for the Directors, senior management and staff, to develop and refresh their knowledge in areas related to their daily duties and the Group's business growth in a changing economic environment. For the year ended 31 December 2019, the Company's external legal advisor has provided training courses to all Directors in a wide range of topics, including the duties and responsibilities of the directors under the Listing Rules, the laws applicable to the Company, the Company's continuing compliance obligations, the disclosure requirements of price-sensitive information and directors' reporting responsibility under the Listing Rules and the Securities and Futures Ordinance, and the discloseable and connected transactions of listed companies. The Company also organised training courses with internal consultants with expertise in internal control and risk management as well as environmental, social and governance reporting. The executive Directors, senior management, financial department personnel and relevant personnel from operation and management departments participated in these training courses.

## DIRECTORS' ACKNOWLEDGEMENT

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

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2019. The management provides the Board with the necessary explanations and information so that the Board can make an informed assessment and approve the financial and other information submitted to it. The Company provides monthly to the Board the latest information on the Company's performance, status and prospects.

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

A statement by the Company's auditor on its reporting responsibilities to the Company's financial statements is set out in page 118 to page 124 of the Independent Auditor's Report in this annual report.

## AUDITORS' REMUNERATION

For the year ended 31 December 2019, the professional fees paid or payable by the Group to the relevant auditor for the audit and non-audit services provided by the auditor of the Company, Ernst & Young, were as follows:

| | RMB'000 |
|---|---|
| Audit services | 6,500 |
| Non-audit service | 2,450 |

## JOINT COMPANY SECRETARIES

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

Ms. Leung and Mr. Huang have received no less than 15 hours of training on corporate governance and other aspects during the year ended 31 December 2019. The main contact person of Ms. Leung Wing Han Sharon in the Company is Mr. Huang Zhongcai, one of the joint company secretaries of the Company.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board acknowledges its responsibility for maintaining a sound and effective risk management and internal control system and reviewing their effectiveness. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions. The controls built into the risk management system are intended to manage significant risks in the Group's business.

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

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

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

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

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

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

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

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

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

For the year ended 31 December 2019, the Board have conducted a review on the effectiveness of the risk management and internal control systems of the Group and considered the systems to be effective. Such review covered aspects including financial, operational and compliance controls and risk management functions. The Board will conduct a review on the effectiveness of the internal control and risk management systems of the Group in this year at least once in each financial year. The Board will also continually evaluate the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

## COMMUNICATION WITH SHAREHOLDERS

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

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

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

## SHAREHOLDERS' GENERAL MEETINGS

For the year ended 31 December 2019, the Company has held two general meetings. The Company will hold its AGM on 29 June 2020. A notice of the Company's AGM to be held and a circular containing further details of the matters to be considered at the meeting, together with this annual report, will be sent to the Shareholders.

## SHAREHOLDERS' RIGHTS

### Nominate a Person for Election as a Director

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

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

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

## CONVENE AN EXTRAORDINARY GENERAL MEETING

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

## SUBMIT A PROPOSAL AT GENERAL MEETINGS

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

## SEND ENQUIRIES TO THE BOARD

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

## AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

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

# ESG REPORT

## ABOUT THE REPORT

### Summary

This is the Second Environmental, Social and Governance Report published by the Group. Based on the principles of objectivity, normativity, transparence and comprehensiveness, the report provides a detailed disclosure of the Group's practice and performance in areas such as environment, society and governance responsibility in 2019.

### Basis of preparation

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

### Scope of reporting

This report covers the Group and its affiliated undergraduate, junior college and technician colleges. The materials published and statistically reported in the Report are from 1 January 2019 to 31 December 2019, which are in line with the fiscal year covered by the Group's Annual Report.

### Data sources and reliability guarantee

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

### Access of the Annual Report

This annual report is available on the websites of Hope Education Group Co., Ltd. (www.hopeedu.com) and the Hong Kong Stock Exchange (www.hkexnews.hk).

### Contact information

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

## RESPONSIBILITY MANAGEMENT

### Responsibility Philosophy

As a nationally renowned private higher education group, the Group is committed to provide students with quality education and professional training. The Group always adheres to the integration of sustainable development into its core educational philosophy of "gratefulness, optimism, rigor and responsibility", and sets about from all-around efforts such as school running, teaching, management and publicity to achieve a teaching service quality that satisfies "student care", "class teaching", "teaching and learning style", "logistics service" and "employment", thereby realizing the vision of "building the top brand of private higher education in China".

### Responsibility Structure

Hope Education implements environmental, social and governance practices, establishes ESG governance framework and gradually fulfills the concept of sustainable development into daily work. The ESG management framework of the Group consists of decision-making layer, executive layer and implementation layer. The decision-making layer represents members of the board of directors and is responsible for major decisions on ESG-related matters; the executive layer represents the ESG group established by the board of directors, and is responsible for the delivery of resolutions made by the decision-making layer and the report of work process and feedback from the implementation layer; the implementation layer is comprised of principals from each department and school, who are the practitioners of ESG works and are responsible to implement decisions made by the decision-making layer into daily practice. Hope Education will further consolidate the ESG working group in the future by enhancing the participation of the board of directors to optimize its functional coordination and improve the control efficiency of ESG.

### Stakeholder Communication

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

Table of The Group Stakeholder Communication Methods

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

### Materiality Issue Management

We selected 27 important issues in respect of ESG with reference to *Environmental, Social and Governance Reporting Guide* (《環境、社會及管治報告指引》) of the Hong Kong Stock Exchange, laws and regulations in education industry, the important topics in education industry identified by industry peers and the business scope of the Group.

For the sake of fully understanding all stakeholders' attention level to the ESG issues, the Group conducts a comprehensive survey over the stakeholders by way of anonymous questionnaire and interviews every two years.

In 2018, the Group sorted each issue in two dimensions, namely "Importance to corporation" and "Importance to stakeholders", to form the ESG materiality matrix and lists through 658 valid questionnaires. In 2019, the Group finally identified 4 highly important topics, i.e., "Teaching quality", "Strengthen teachers' professional skills", "Enrich teaching sources" and "Professional skill training adapts to market demand" in combination with its own operations and comprehensively considering the importance of issues based on the work in 2018, which will be focused on in this report.

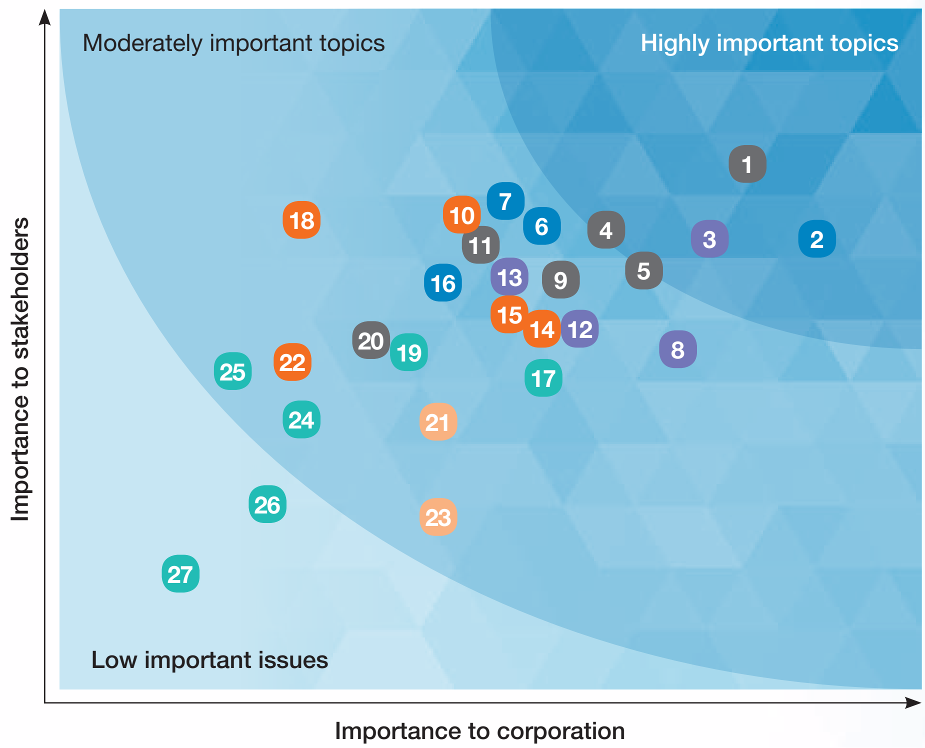



Figure of Materiality Analysis Matrix on Hope Education's ESG Topics

Table of Hope Education's ESG Important Issues List

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

## COMPLIANCE OPERATION

As the first front for talent cultivation, universities shoulder an important task of fostering character and civic virtue. Hope Education adopts the wordings of "quality, standardization and stability (質量、規範、穩健)" to standardize the operations and governance of the Group and guide the development of the Group. All members and various departments of the Group have vigorously promoted standardized management and strived to provide more high-quality higher education graduates to the society and cultivate more high-quality talents with professional skills for the country.

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

### Anti-corruption

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

The Group has established a target of integrity and impartiality, which requires all employees to be abided by the bottom line of integrity and engaged in trainings of the relevant laws and regulations and warning education. In 2019, the Group organized a training of "prevention and standardization of employees' job crimes – a more beautiful life under the law binding" for all employees, to fully enhance their legal awareness. For school teachers, we have launched a staff education meeting to promote the learning of laws and regulations, in order to enhance teachers' legal quality and awareness of legal compliance. Meanwhile, our colleges independently carried out the construction of teachers' incorruptible culture by strengthening the construction of teachers' morality and style and improving teachers' quality and culture. For example, Tianyi College organized teachers and staff to deeply study the Code of Professional Ethics for College Teachers (《高等學校教師職業道德規範》), Ten Principles for Professional Behavior of New Era College Teachers (《新時代高校教師職業行為十項準則》) and Guiding Opinions of the Ministry of Education on the Treatment of University Teachers' Moral Misconduct (《教育部關於高校教師師德失範行為處理的指導意見》) to standardize professional behavior of teachers in accordance with various requirements, and warned teachers to perform their duties without crossing the red line to be a teacher with four good qualities and a mentor.

Under the overall regulatory constraints, the Group did not have any corrupt conduct, such as bribery, extortion, fraud and money laundering that results in any significant lawsuit during the Reporting Period.

### Privacy Protection for Students and Parents

The Group strictly complies with the Consumer Protection Act of the PRC (《消費者權益保護法》), the Regulations on the Management of Students in Regular Colleges and Universities (《普通高等學校學生管理規定》), the Measures for the Administration of Full-time Regular College Students' School Roll (《全日制普通高等學校學生學籍管理辦法》), and the Notice of the Sichuan Provincial Department of Education on Further Regulating the Management of Adult Higher Education's School Roll and Academic Credentials (《四川省教育廳關於進一步規範成人高等教育學籍學歷管理工作的通知》) and other laws and regulations and administrative measures, and formulates the School Roll and Academic Credentials Administrative Measures (《學籍學歷管理辦法》) to establish a centralized management mechanism and system of "leveled management, hierarchical responsibility, special person and assessment accountability (分級管理、分層負責、專人完成、考核問責)". The School Roll and Academic Credentials Administrative Measures (《學籍學歷管理辦法》) clearly stipulates that it is not allowed to provide relevant information on students' school roll without the consent of the person in charge of the academic affairs, except necessary work requirements of relevant posts. In addition, the Group enters into Confidentiality Agreement (《保密協議》) with the staff involved in student privacy and information security to further regulate employees' behavior.

In 2019, we enter into *Confidentiality Agreement* (《保密協議》) with the staff involved in student privacy and information security, requiring them to comply with confidentiality clause, to prevent student personal data leakage and to protect the privacy and interests of students and parents from infringement. During the Reporting Period, the Group did not have any complaint or significant case on the leakage of personal data of students and parents.

### Intellectual Property Protection

Intellectual properties are the intangible assets of the corporates. Protecting intellectual properties is the only way for protection of corporate values and promotion of corporate innovation. The Group strictly abides by *the Intellectual Property Law of the PRC* (《中華人民共和國知識產權法》), *the Trademark Law of the PRC* (《中華人民共和國商標法》) and *the Advertisement Law of the PRC* (《中華人民共和國廣告法》) and completely eradicates false promotion.

The Group further strengthened the brand maintenance and construction, strictly regulated the intellectual property rights, including patents, copyright and trademark, and protected the brand and goodwill image through various means, such as dynamic monitoring, investigation, complaint and advise and litigation. In 2019, the Group updated the "Advertising Contract (《廣告合同》)" on the basis of brand standardized management to further set the standards of the Group for external communication. Meanwhile, the Group uses authorized textbooks and relevant reference books during the procurement process to fully respect others' intellectual property rights and try our best to protect the legal rights and interests of others from infringement.

## EDUCATIONAL RESPONSIBILITY

### Quality Education

*New Educational Philosophy*

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

*Education Quality Improvement*

To strengthen connotation construction and promote standardized management, the Group has formulated the Evaluation and Assessment Index System for Colleges and Universities to Operate Schools (Detailed Index)《院校辦學評估考核指標體系(細化指標)》, which sets up 7 first-level indicators, 30 second-level indicators, 88 third-level indicators and 209 observation points to help the Group and its affiliated colleges clearly identify the problems in running schools and make timely corrections, promote the standardized management of colleges and universities, improve the quality of education and teaching and enhance the level of operating schools.

The Group insists on improving the quality of talent cultivation as the core task of higher vocational education, to gradually promote the diagnosis and improvement of teaching work and strive to build an internal quality assurance system by closely focusing on the goal of educating people, and taking education and teaching quality enhancement as the subject and mainline of vocational education. Meanwhile, the overall competence and quality of teachers in various colleges are enhanced through strengthening business training for teachers in various colleges, organizing various teaching and practical skill competitions, thereby contributing to the improvement of teaching quality from the source.

*Enrich Educational Resources*

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

In 2019, in accordance with the requirements of the Implementation Plan on Reform of National Vocational Education (《國家職業教育改革實施方案》), targeting at the electronic sports industry which is encouraged by the state and in the significant shortage of talents, the Group cooperated with Sichuan May Sunshine E-Sports Technology Company (四川五月陽光電競科技公司) to engage in the cultivation and training of e-sports talents. According to the Notice of the General Office of Ministry of Education on Carrying out the Project Recognition for the Action Plan on the Innovational Development of Higher Vocational Education (2015-2018) (《教育部辦公廳關於開展〈高等職業教育創新發展行動計劃(2015-2018年)〉項目認定的通知》), the productive training base title was awarded to the comprehensive simulation training base with multi-purpose use of industry, education and research for automobile manufacturing and assembly of Hebi Automotive Engineering Professional College and the productive training base for software technology and the internet+ innovative and entrepreneurial talent incubator smart factory of Sichuan TOP IT Vocational Institute.

In view of improving the fitness of talent cultivation and social demands and further enriching the educational resources, for the purpose of jointly building the school-enterprise value ecosphere, the Group signed school-enterprise cooperation agreements with several enterprises including China Railway Construction Group Co., Ltd., Chengdu Public Transport Group Co., Ltd., Beijing Jingdong Century Trading Co., Ltd., Homelink Real Estate Agency Co., Ltd. and Industrial and Commercial Bank of China, respectively, and signed the agreements in respect of the cooperation for "Industry, Education and Research" and teaching training bases with several institutions including Linfen Central Hospital and Shanxi Shining High-Tech Medical Testing Center, respectively.


Figure: Cooperating enterprises with Hope Education

*Students' Potential Stimulation*

With a view to fostering a large number of knowledge-based, skillful and creative workers, upholding the spirits of model workers and craftsmen and creating a good social atmosphere of "working is glorious, skills are valuable and creation is great", the Group has established the concept of "promoting learning, teaching and development via competition" and encouraged teachers and students of all colleges and schools to carry out skill competition.

The Group has issued the Implementation Plan for Carrying Out Skill Competitions to Establish a Unique School Brand and the Incentive Measures for Carrying Out Skill Competitions successively, established a special skill competition leading group for Hope Education Group, hired experts with experiences in managing skill competitions, and assigned specific personnel to promote such skill competitions. In 2019, the Group organized and participated in a series of competition activities, such as the Skill Competition of "Hope Craftsman Cup", the Mathematical Modeling Competition and the Online Knowledge Competition in Respect of Online Publicity and Education. Such skill competitions promoted the establishment of study style, cultivated, exercised and demonstrated students' capabilities and comprehensive qualities in all aspects, and widely mobilized students' enthusiasm and initiative in studying.

**Table Key Competitions of Hope Education in 2019**

| Competition level | Times of participation | First Prize (Award) | Second Prize (Award) | Third Prize (Award) |
|---|---|---|---|---|
| International level | 2 | 1 | 2 | / |
| National level | 28 | 8 | 9 | 19 |
| Provincial level | 191 | 108 | 186 | 283 |

*Students' Satisfaction*

Hope Education Group is committed to establishing a satisfactory university for the people. With a view to improving social satisfaction, the Group aims to strengthen the specialized management of student affairs, build up excellent teaching teams, improve the quality of talent training, optimize campus culture and create a good school image.

By adhering to the principles of "multi-pronged progress, prompt communication, complementary information and efficiency first", the Group has set up multiple feedback channels for students and their parents and established a comprehensive and prompt problem tackling mechanism. Students and their parents may report problems to the Group through microblog, Wechat or school post bars and give direct feedbacks to the president. The Group will classify such problems upon receipt and distribute them to the responsible campus for tackling, and will designate responsible leaders to make rectifications within a time limit. Meanwhile, the Group will track the whole process, coordinate the problem tackling process across companies and departments, and verify the actual tackling status of the problems, so as to allow the students and their parents to give truthful feedbacks promptly and conveniently, and guide the improvement direction of the Hope Education Group. In 2019, the feedback rate of advisory was 100%, and there were no major complaints throughout the year of the Group.

### Administrative Logistic Support

Administrative logistic service is the basic guarantee for the smooth operation of a school. Hope Education considers students and teachers' health and safety as a top priority and is committed to creating a sense of well-being and belonging that makes the school a home for teachers and students. To ensure the safety of teachers and students and create a safe, healthy and civilized school atmosphere, the Group formulates the Logistics Management Measures (《後勤管理辦法》), and establishes a management structure headed by the security management department of the Group, supported by the logistics department of the Group and its two subordinate departments (general division and security division). At the same time, the Group formulates strict management systems and rules on fields including food hygiene, medical safety, vehicle safety, facility safety and electricity safety, and strengthens emergency prevention and intervention in higher education institutions to reduce various types of security incidents risks. During the Reporting Period, the Group has no major campus safety incidents.

*Food Safety Guarantee*

According to laws and regulations and relevant requirements including the Food Safety Law of the PRC (《中華人民共和國食品安全法》), the Implementation Regulation on Food Safety Law of the PRC (《中華人民共和國食品安全法實施條例》), the Measures for Supervision and Administration of Food Safety in Catering Services (《餐飲服務食品安全監督管理辦法》), the Code of Practice for Food Safety in Catering Services (《餐飲服務食品安全操作規範》), the Guidelines for Canteen Safety of Higher Education Institutions (《普通高等學院食堂安全工作指南》) and the Regulation on Hygiene Administration of School Canteens and Collective Dining of Students (《學院食堂及學生集體用餐衛生管理規定》), and regulatory requirements of local government departments, combined with the actual situation of the Group, the Group further improved the Administration Measures on Campus Food Safety of Hope Education Group (《希望教育集團校園食品安全管理辦法》) in 2019 and formulated strict food safety system.

- **Carrying out whole-process control to ensure the hygiene of the canteen**: According to Administration Measures, the Group comprehensively supervises the food safety and hygiene of the school canteen during the whole process, ranging from procurement and storage of raw materials, food processing, food sample retention to tableware disinfection, and by personnel management and training.

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

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

- **Food processing:** The canteen shall conduct food processing in strict accordance with the purposes and processing procedures of various functions (areas) and equipment, and processing of high-risk food is prohibited;

- **Sample management:** The canteen shall retain samples of each meal for 48 hours for storage in specific fridges, and keep records for filing in the record list of food samples by designated staff;

- **Staff management and training:** The Group and respective schools shall strictly conduct reviews on the health proofs of the work personnel and regularly arrange health tests for relevant staff to ensure the canteen staff are in compliance with the standards of practice; the work personnel shall be subject to food safety trainings and tests before performing job duties.

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

- **Comprehensive Supervision on Safety through the Coverage of Stores and Supermarkets**

  The Group regulates the business scope of stores and supermarkets by prohibiting their operation beyond business scope and strictly requiring them to operate under a full compliance with the requirements in relation to procedures and certificates including, among others, Business License, Tax Registration Certificate, Food Circulation License and Personal Health Certificate, and requires that the supermarkets should have the necessary quality check certificate for the supply of foods and it is prohibited to supply products that are uncertified, dateless and produced by a nameless factory and those expired products. Those stores will be subject to severe punishment for their failure to comply with our requirements on food hygiene and safety.

- **Joint Inspection for Regular Assessment and Feedback**

  In respect of the implementation of Administration Measures, the security management department of the Group from time to time designates relevant staff to conduct inspection and assessment, and the employees will be subject to inquiries and punishment if they underperformed. In 2019, after a comprehensive food safety inspection at the Group level, our schools rapidly rectified those issues identified during the inspection on the principal of "Rectification in a Day". Meanwhile, the Group assigned steering groups to our schools and urged them to solve potential issues in relation to food safety on a timely basis.

*Campus Security Guarantee*

In accordance with the requirements of the documents on campus security and stability issued by the Ministry of Education of the PRC, the Provincial Department of Education and the schools, the Group has established the work concept of "putting People first, caring for life" and the work policy of "safety first, prevention first".

In order to safeguard the fundamental interests of the teachers and students, the Group requires each college to establish a security leading group. The Group makes great efforts in fostering a sense of full participation to regulate employees' behavior in management. In order to further strengthen safety management, the Group has formulated the School Logistics Safety Management System and has established an effective safety prevention and emergency response mechanism to prevent and reduce the occurrence of safety accidents.

- **Strengthening Fire Safety Guarantee**

  According to the national laws and regulations including the Fire Protection Law of the PRC (《中華人民共和國消防法》), each school formulates the College Fire Management System (《學院消防管理制度》) and the Fire Control Room Management System (《消防控制室管理制度》), and arranges the security personnel to make special inspections on fire safety and equipment safety at key places such as dormitory, teaching building and training building under the third-level inspection requirements every day, to ensure that fire equipment are put in place. In 2019, the Group further improved the Standard Specification for Work of Security Personnel and strictly requires implementation of the 24-hour work system of two people rotating on two shifts in the fire control room. There must be a person with the fire service qualification certificate on duty to monitor the operation of the system at any time.

  Meanwhile, the Group has formulated the Fire Extinguishing and Emergency Evacuation Plan (《滅火和應急疏散預案》) and requires each school to conduct drills regularly, to improve the ability of teachers and students to prevent fire and their fire emergency escape ability. In 2019, each college organized fire evacuation drill activities to help students learn correct and effective escape knowledge, and also accumulated valuable experience during the drill process, laying a solid foundation for future efficient and orderly fire emergency work.

- **Providing Medical and Health Support**

  The Group actively implements the provisions of the Emergency Regulations for Public Health Emergencies (《突發公共衛生事件應急條例》) and improves the College Public Health Emergency Contingency Plan (《學院突發公共衛生事件應急預案》), the College Infectious Disease Prevention and Control Plan (《學院預防與控制傳染病預案》) and the College Food Poisoning Emergency Contingency Plan (《院校食品中毒應急預案》) to regulate campus public health safety accident emergency plan management, and quickly and effectively deal with campus safety accidents. Each college sets up an infirmary stationed by full-time doctors in order to strengthen drug management and avoid medical accidents; keeps in touch with local disease prevention and control center, communicates and reports infectious disease prevention and treatment in time, and regularly invites professionals to the school for providing training; specifies regular drills for sudden illness suffered by teachers and students at school to eliminate the hidden risk of breakout of infectious diseases.

- **Attaching Importance to the Healthy Growth of Students**

  In order to strengthen teachers' and students' safety awareness, each college holds fire safety knowledge lectures and health education lectures and conducts various fire safety and health education trainings every semester. The Group also encourages the teachers and students to develop scientific and healthy living habits through providing demonstrations and guidance for teachers and students on site. In addition, the Group constantly pays attention to various adverse factors that jeopardize students' physical and mental health, such as campus loan, school bully, network safety, AIDS and drugs, and joins hands with the relevant regulatory authority to clear up and purify the environment of campus through campus bulletin and themed lectures.

  In 2019, Business College of Guizhou University of Finance and Economics organized anti-fraud publicity activities to raise students' awareness of cyber security, strengthened the prevention of new types of illegal crimes in telecommunication networks, and escorted the students in cyberspace. For the new students in 2019, Southwest Jiaotong University Hope College invited policemen from the police station to give lectures on campus security and make a close and intuitive analysis of various campus security incidents including online fraud, online loans, traffic safety and dormitory security to improve students' campus safety awareness and enhance their self-protection ability.

## Student Employment

Talent is the first resource to promote social development, and employment is the platform for talents to "take root" and "make the best use of their capability". The Group regards the employment of students as the top priority of its work, and is committed to systematically solving the problem of student employment from top to bottom from the top-level design of colleges to professional settings. Guided by the Law for Promoting Private Education (《民辦教育促進法》), the Group formulated the Administrative Measures for Employment (《就業管理辦法》) to standardize the employment guidance for students and integrate student employment and student entrepreneurship.

The Group puts emphasis on enhancing students' professional proficiency and professional quality and provides employment consultation and guidance services for students through opening employment guidance optional courses and employment guidance lectures, and actively explores employment channels through the cooperation with enterprises and universities, deepens the integration of industry and education, strengthens the in-depth cooperation between industry and education, and builds two-way selection meetings and other platforms, to provide students with high-quality resources and improve actual graduate employability.

In 2019, the Group held the 6th "Hope Career Cup" Career Planning Competition (第六屆"希望生涯杯"職業規劃大賽). The competition lasted 3 months, strengthened the communication among the colleges, stimulated the students' thinking on life planning, made them mature in thought, and laid a solid foundation for entering the workplace in the future. Each college also actively carries out activities to promote student employment. For example, Business College of Guizhou University of Finance and Economics and the College Double Venture Employment Association co-organized a large-scale campus reciprocal selection meeting to build a face-to-face, zero-distance docking platform for students, and provided solid support for graduates entering into the society.

In 2019, Hope Education had a total of 33,480 graduates. With a variety of initiatives to promote employment, the one-time employment rate of the graduates in 2019 reached 95.7%.

## SOCIAL RESPONSIBILITY

### Staff Development

*Protection of Staff's Interests*

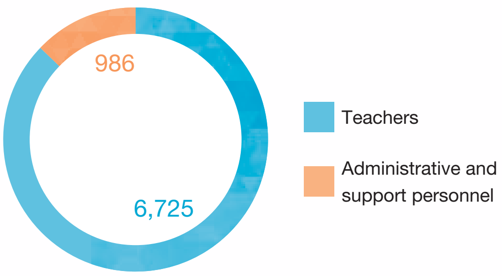
High quality faculty is the core competitiveness of the Group. The Group has, in strict compliance with *the Labor Law of the PRC* (《中華人民共和國勞動法》), *the Labor Contract Law of the PRC* (《中華人民共和國勞動合同法》), *the Provisions on the Prohibition of Using Child Labor* (《禁止使用童工規定》), *the Special Provisions on Labor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

In order to regulate the talent recruitment mechanism for selecting suitable high-quality talents, the Group has formulated *the Administrative Measures on Employee Recruitment* (《員工招聘管理辦法》), which sets out the recruitment principles of "strict control, proper reserve, competency-position fit and merit-based enrollment, open recruitment and internal priority", to strictly prohibit the employment of child labor, examine the documents and information of employees during interviews and directly weed out those whose qualification or certificates are identified fake. After an employee joins in, the Company will enter into a written labor contract with him/her within one month, and purchase pension, medical care, work injury, maternity, unemployment or commercial accident insurances, housing provident fund, etc. for him/her, to ensure his/her legal labor rights. Meanwhile, the Group has established the Attendance Management System (《考勤管理制度》) to regulate the working hours of faculty and prevent forced labor activities.

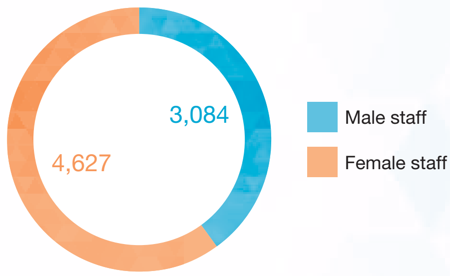
The Group actively and steadily improves our system. We have formulated the Headquarters Administrative Measures on Remuneration (《總部薪酬管理辦法》), establishing a scientific and reasonable salary system that complements to the Company's development, and amended the Administrative Measures on Remuneration (《薪酬管理辦法》) based on the natures of our subsidiaries, regulating the salary adjustment of employees in accordance with the principles of science, fairness and reasonableness. Meanwhile, the Group has also standardized the relevant payroll administrative arrangements including adjustment procedures, adjustment schedules, adjustment ranges and implementation after adjustment.

During the Reporting Period, the total number of employees in the Group was 7,711, among which female employees accounted for 60% and the turnover rate of employees was 1.9%, and there was no case prejudicial to the interests of employees.

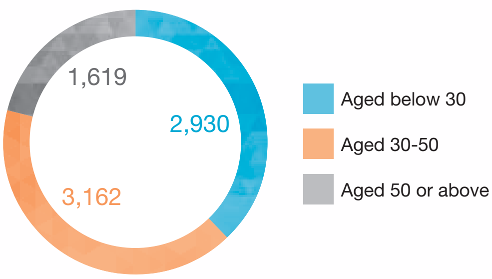
Staff Composition by Employment Type (unit: person)




Staff Composition by Gender (unit: person)




Staff Composition by Age (unit: person)




Staff Composition by Region (unit: person)

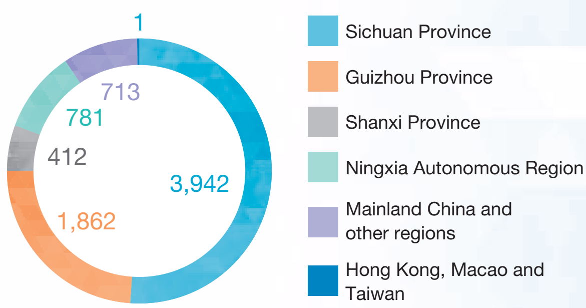



**Figure: Staff Composition (unit: person)**

*Unimpeded Development Channels*

The Group ensures impartial and equal promotion opportunities for each staff. It has worked out *the Administrative Measures on Performance Incentives and Assessment of School Operations* (《院校業務工作激勵考核管理辦法》), regulating staff assessment and incentive mechanism, so as to promote their enthusiasm. Staff in management positions are mainly recruited by selecting the best candidates when there are vacancies in the post establishment and their salaries are adjusted based on their personal work performance, personal achievements and annual assessment results. And staff in professional and technical positions are promoted within the post establishment and their salaries are appropriately raised based on their job achievements on the post and performance evaluation.

The Group highly values the cultivation of teaching teams and the strengthening of faculty, keeps abreast of the reform of the professional and technical titles evaluation system of colleges and universities, and encourages teachers to actively apply for various titles. Meanwhile, the Group has formulated the Measures for Implementation of Professional and Technical titles Evaluation (《專業技術職稱評審實施辦法》) to carry out a comprehensive assessment on academic qualification, computer application, teaching and scientific research level of the applicants, thus ensuring the fairness and justice of evaluation.

In 2019, five colleges of the Group carried out the joint medium-grade or senior titles assessment for the first time. A total of 297 people applied for medium-grade titles and above, where 2 people passed the senior assessment, 27 passed the sub-senior assessment and 227 passed the mid-grade assessment. Through the joint titles assessment, qualification structure of teachers in the colleges of the Group has been effectively improved.

*Enhancement of Teacher's Ability*

The Group attaches much importance to the development of teacher's ability. To enhance the overall quality and teaching standard of teachers, the Group has formulated *the Guidance on Strengthening the Building of Teaching Team of Higher Education Institutions within the Group* (《關於加強旗下高等院校師資隊伍建設的指導意見》) according to *the Teachers Law of the PRC* (《中華人民共和國教師法》), *the Regulation on Training Work for Teachers of Higher Education Institutions* (《高等學院教師培訓工作規程》) and other relevant laws and regulations. In accordance with the requirements of local educational regulatory authorities at all levels, and based on their own realities, the colleges have laid down *the Implementing Measures on Standardized Training Program* (《規範化培訓工作的實施辦法》), *the Training System of Teacher Posts* (《教師崗位培訓制度》) etc., which standardized management in many aspects, such as teachers' moral education, pre-job training, in-service training, on-the-job practice, academic exchange, tutor guidance and teaching.

*Theory and Practice, and Dual-mode Training*

The Group conducts training with emphasis in a manner of "Theory and Practice" according to the different business needs based on the employees' levels and departments. The training is mainly divided into two aspects including general system training and business professional training. Of which, the general system training mainly involves the human resource management standards, financial management systems, asset management systems and office platform process operation specifications. The Group combines the general system training with the new employee induction training to ensure full coverage of this type of training. At the same time, the Group also conducts assessment to employees by way of online test, and the department that issues systems further promotes the system information, so as to achieve repeated strengthening and let the employees form a theoretical system. The business professional training mainly adopts the training method of "Teaching and Mentoring" in practice according to the position and work content of the employees. This kind of supportive training can effectively identify the problems of the employees at work and focus on solving the problems.

In 2019, Tianyi College launched the "Young and Middle-aged Key Teachers Training Program" and introduced the training mode of "Introducing Internally and Cultivating Externally, Teaching and Mentoring, Demonstrating and Leading by Famous Teachers", and established the teaching and research offices in various departments, and the teaching and research team was organized by the experienced old professors in the department, to carry out teaching and research activities in the form of collective lesson preparation, demonstration classes, lectures and professions, listening and evaluation, teaching method research, and pairing and assistance. The 7 departments and 17 teaching and research offices of the college have respectively formulated the implementation plan and activity programs of the teaching and research activities, which have effectively promoted the continuous improvement of teaching quality and the gradual improvement of teachers' teaching level.

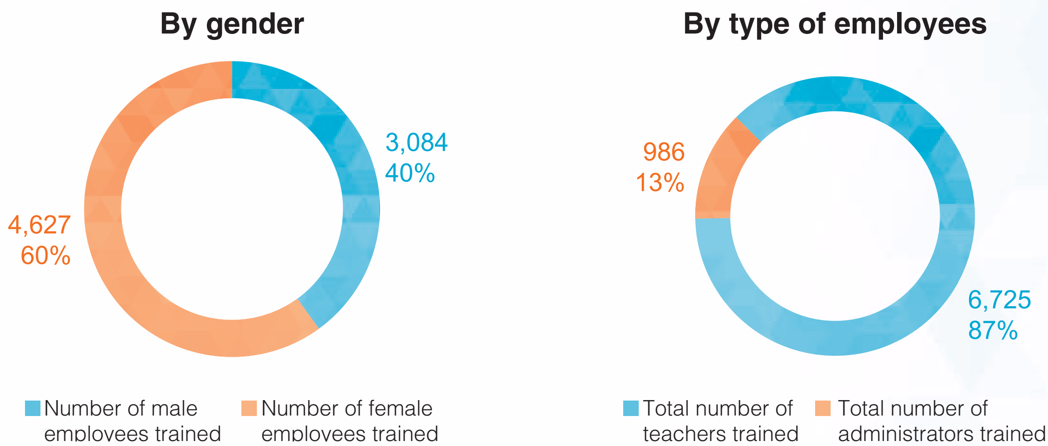



Figure: Number and proportion of employees trained (unit: person)

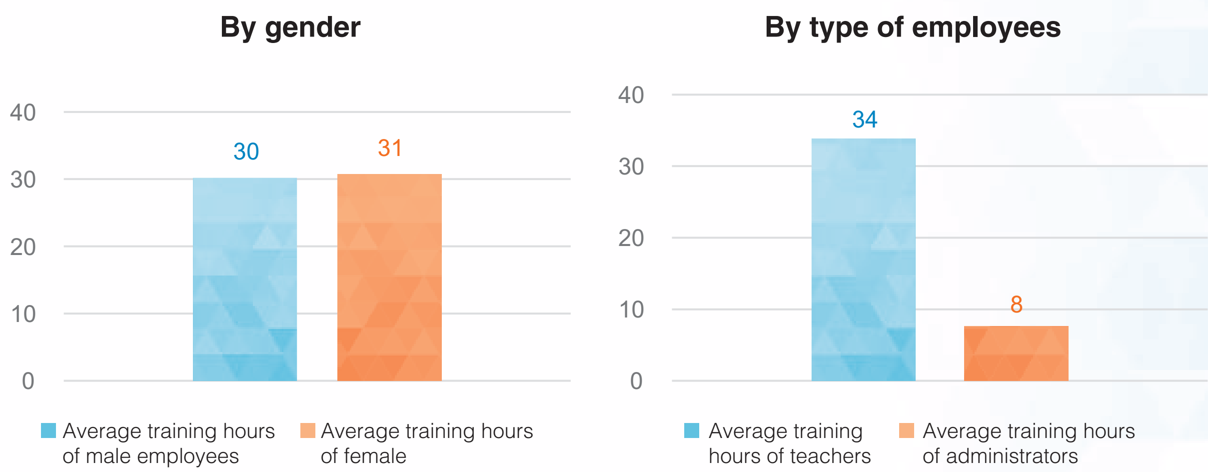



Figure: Average training hours of employees (unit: hour)

*Assessment and Competition, and Multiple Ways to Promote Teaching*

In terms of assessment, based on the qualified evaluation index system of higher education institutions by the competent education department, the Group conducts a comprehensive assessment of the colleges every six months, and conducts an assessments of teachers and administrators once a month, to really achieve promoting construction by examination, promoting management by examination, and promoting teaching by examination. The Group regularly organizes professional analysis and communication activities of colleges to evaluate and promote teaching. Through professional analysis of experts, it helps teachers to clarify teaching plans, understand teaching programs, and comprehend the significance of teaching. The college teachers' experimental training and teaching skill competition and college teachers' professional skill competition will be organized to promote teaching through competitions, and allow teachers to exchange and learn teaching experience in the competitions. At the same time, the Group also encourages teachers to lead students to participate in student technology and skills competitions, so as to achieve learning while teaching.

*Care for Staff*

Creating a good working atmosphere for staff and attracting and retaining talents are the foundation and premise of the Group's stable development. The Group provides good welfare treatment for staff and handles supplementary medical insurance and commercial insurance. In order to further enhance staff welfare and show staff care, the Group gradually added and improved staff welfare policies in 2019 to diversify the staff benefits. In terms of the original staff birthday welfare policy, from the perspective of caring about the health status of staff, the Group cooperated with large-scale health examination centers and regularly organized staff to go for medical examinations to achieve 100% coverage of staff medical examinations. In order to solve the problem of staff dining, the Company actively built a new staff canteen and put it into use, and ensure the dining quality of staff by purchasing high-quality ingredients, fruits and vegetables. At the same time, a variety of refreshments are provided, and the delicious and seasonal fruits are regularly distributed to the staff on each working day. In addition, the Group rents houses or apartments near the campus and provides them to the teaching staff in need free of charge to solve the problem of long commuting time. These measures have effectively adjusted the employees' emotions and working atmosphere, and improved employee satisfaction.

Each of the Group's colleges irregularly organizes the collective activities of teaching staff. In terms of team activities in 2019, the Group organized employees to conduct three movie watching activities on the major festival dates, and organized employees to visit and study in Wenchuan, Yingxiu and other places, which enriched the employees' spare time and also drived their enthusiasm for work.

## Harmonious Communities

*Provision of Volunteer Support*

A tree has to strike a firm root before it can flourish. A river has to have a fully dredged source before it can flow unceasingly far. While seeking for self-development, Hope Education has not forgotten to contribute returns to community by actively implementing corporation social responsibility. Based on the talent advantage of education industry, the Group adheres to demand-orientation, coordination and cooperation, exploration and innovation, focuses on actual effect and insists on the support principle of giving full play to advantage so as to help poverty alleviation villages to wipe out poverty and get rich. In 2019, each college of the Group actively devoted itself to the targeted poverty alleviation initiatives and assigned cadres to reside in designated villages to get deep understanding of the demand of the people who needed support. In order to support poverty alleviation, the Group specially created the designated special support fund and required each college to give full play of the advantage of talent cultivation and cooperate with the local government to jointly study the support project so as to further implement initiatives of the intellectual support and talent cultivation and continuously improve the support achievements, which has received absolute recognition from all walks of the society.

As of the Reporting Period, the Group has invested total fund donation of RMB1.13 million in the community support, with 15,877 volunteers including students expending a total of 768,789 hours.

## Industry Support

In 2019, Business College of Guizhou University of Finance and Economics has gone deep into three poor villages such as Jiaba, Gaozhai, Shiban in Baibang Community, Baijin Town, Huishui County, Qiannan Prefecture, Guizhou City (貴州市黔南州惠水縣擺金鎮擺榜社區) for 13 times successively and has visited communities, village councils and poor families to understand the causes of poverty. It helped Shiban village and Jiaba village develop aquaculture by purchasing fish fry of grass carp, carp and silver carp into the Tiger Wolf reservoir of Shiban village so as to lead the poverty families to get rid of poverty and get rich by fish farming in Shiban village.

Sichuan Hope Automobile Vocational College conducted a research on poverty alleviation in Quwa village, Heishui County, Sichuan Province. On the one hand, it carried out education and training for cadres, young and middle-aged labor force and teachers in the poverty areas of Quwa village; On the other hand, the college also got touch with companies which engaged in agricultural products sales or processing around Ziyang to sell local agricultural products in quwa village and broaden the channel for farmers to earn income and get rich. Meanwhile, the college actively promoted the whole faculty and students to carry out the activity of “Replacing Donation with Purchase”. The faculty, canteen and shops of the college directly purchased the farm and sideline products of the farmers who needed support and increased their income.

Picture of Target Poverty Alleviation and Replacing Donation with Purchase

Picture of Conducting a Research on Poverty Alleviation

**Skills Support**

Cooperating with Chengdu Vocational and Technical College of Industry, Sichuan Vocational College of Culture & Communication selects teacher volunteers with specialty to head for Sêrxü county, Garzê Tibetan Autonomous prefecture and gives full play on specialty advantage of the majors such as preschool education, photography and video production and strengthens talents cultivation of the skilled personnel in Sêrxü county to promote more local poor labor force to realize the dream of poverty alleviation through skills training. Catering for the actual development requirement from Songpan county, Aba prefecture, Sichuan province, Tianyi College carries out tourism practitioners training in local areas, focuses on the actual training effect and applies modernized technology approaches to improve the tourism service quality and level in the ninth ring area and promote Songpan county to win the battle of poverty alleviation.

In addition, Jinci College of Shanxi Medical University plans to select 36 students majoring in clinical medicine among the freshmen admitted to the general college entrance examination from poverty-stricken families in Shanxi Province to cultivate them with free tuition in the whole stage of undergraduate education every year for three consecutive years from 2019 to 2021. The college will prevent some poor students from "Turning into poor due to tuition" and "Returning to poorness due to tuition" though poverty alleviation program to promote poor families to get rid of poverty basically. Leveraging on the advantages of high-quality education brands and based on the orientation to meet the needs of primary health care services, the college focuses on the cultivation of general practitioner competence of these students to create "special class of clinical medicine" and support the development of the primary health care service.

**Health Support**

Tianyi College donated funds to establish rehabilitation treatment rooms of day care center for the poverty alleviation area in Yajiang county, Ganzi prefecture, Sichuan province. It has equipped the rooms with rehabilitation equipment of RMB30,000 for Kashin-Back disease, organized the excellent teachers in faculty of nursing of the college to carrying out further training on the equipment usage and relevant theories knowledge for administrator of rehabilitation treatment rooms. Meanwhile, Tianyi College carried out lectures on health knowledge and the free clinic activities in Songpan county regularly, answered the chronic disease questions from more than 100 villagers and put forward reasonable treatment proposals and heath guidances so as to spread the health services and health knowledge into the door of villagers.

*Promoting of Cultural Integration*

"Gratitude" is the core of the Hope Education's corporate culture. "Grateful Season" is the Group's annual traditional activity to encourage gratefulness from the hearts of teachers and students with charitable acts all along. In October 2019, the Group initiated the grateful season activity under the theme of "Eulogize the Motherland,Sing for Hope" with all members from 14 colleges participating it. The activity combined the gratitude culture closely with the 70th anniversary of the founding of new China to express the faculty and students' gratitude for the Party and our country.

**Picture of 2019 Grateful Season Activity under the Theme of "Eulogize the Motherland,Sing for Hope"**

Each school actively opens mind, vigorously innovates the means of activities, and successfully creates many excellent grateful season activities. For example, Southwest Jiaotong University Hope College integrated the gratitude culture closely with the ideological and political education courses to cultivate gratitude culture among students; Tianyi College held the chorus competition of "Eulogize China with Red Song and Strive for a New Era" with more than 800 teachers and students of the college joyfully gathering together to share the visual feast...Through a series of activities, the Group expressed its beautiful vision for the "young people of hope" that it expected them to carry forward the undertakings of the predecessor and open up a new road for future, forge ahead and inherit and spread culture, be brave to shoulder responsibility, adhere to dreams, let go of dreams so as to strive to grow into a "powerful generation".

## Supply Chain Management

The Group continues to strengthen its supplier management, improve its operation and management level, regulate and improve its procurement process and improve its procurement quality with aims to ensure the safety, reliability and fairness of supply.

The Group formulates the Supplier Management System to implement the entry system of suppliers, which conducts screening of suppliers and builds up a database for suppliers to carry out a unified management of qualified product suppliers. The Group establishes a supplier examination group to assess 4 sectors of the suppliers once every quarter, including product quality, prices, delivery period and after-sales service, and divides the suppliers into four ratings from A to D. For suppliers with rating A, they will be considered in first priority in terms of procurement. For suppliers with rating D, they will be directly eliminated and blacklisted, and application by that supplier within one year will not be accepted. In the event that there is a material quality incident relating to the goods and materials supplied by the suppliers, the Group will conduct an assessment and examination towards the suppliers at any time to ensure the stability of the quality of products supplied by the suppliers.

For the procurement, the Group has formulated the Management Rule of Procurement Department (《採購部管理制度》) to regulate and improve the procurement operation mechanism in bulk procurement, regular procurement and special procurement for procurement efficiency enhancement and capital utilization effectiveness. In addition, the Group clearly regulates the work discipline of procurement personnel by prohibiting procurement personnel from accepting any invitation to banquets or cash gifts and entering into the corruption-free agreements《廉潔協議》with suppliers to enhance the supervision from the suppliers over the procurement personnel. The Group also launches the whistleblowing channels and establishes a reward mechanism to encourage reporting of the non-compliances with aims to ensure the fairness and impartiality of the procurement process.

In 2019, the Group improved and expanded its commodity database resources with the entry of commodity data of 42,002; the Group maintained a list of more than 400 new local prime suppliers through weekly on-going market surveys; and identified more than 1,000 vendors through market surveys, laying the foundation for price evaluation on the to-be-purchased material for the newly acquired and constructed colleges.

Supplier Distribution

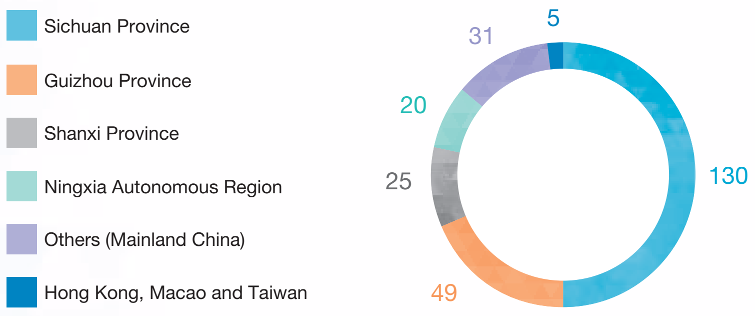



**Diagram: Hope Education's Supplier Distribution**

## ENVIRONMENTAL RESPONSIBILITY

### Environmental Management

The Group strictly complies with the environmental protection policies and regulations, such as the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) and the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), by means of incorporating green concepts into its daily management and operation, practicing green offices, building green campuses, disseminating green concepts and advocating green lifestyles to actively fulfill its corporate environmental responsibility.

In the education service industry where the Group operates, the main environmental impacts of the Group are energy consumption, water resource consumption, office resource consumption, campus life wastes and three wastes (exhaust gas, wastewater and solid waste) discharge from canteen operation. There is no use of packaging materials for products during the course of business and there is no issue in sourcing suitable water. The domestic sewage generated during daily operation is discharged through municipal sewage pipe networks to urban sewage plants for treatment, the impact on the environment and natural resources is not material for the operation of the Group.

### Energy Saving

The Group further refines energy consumption management and control measures, put in place the energy consumption management goals, and holds monthly energy consumption analysis meetings on a regular basis to track monthly energy consumption and precisely manage the energy use; sets up a strict supervision and inspection system to make public departments which have taken inadequate measures to save resources, or individuals who have caused serious wasting of water and power; implements the office management system, requiring those who are the last ones to leave the office to be responsible for power checking to ensure that all electrical facilities are switched off before leaving; standardizes the Equipment Maintenance and Management System (《設備維修管理制度》) and, in the principle of "timely processing to reduce consumption", the online repair reporting system is rolled out in various colleges and the management method that the maintenance is conducted on the day of reporting is adopted.

The Group continues to implement energy conservation and emission reduction and emphasizes on power saving, water saving and paper saving in every tiny aspects in its daily operations, so that the green concept can be deeply rooted in people's hearts, which can help achieve green and low-carbon operation with practical actions. The key measures for energy conservation and consumption reduction taken by the Group and various colleges include:

- Implementing a daily energy registration system to monitor daily electricity and water consumption level and to rectify any abnormal situations once identified in a timely manner to put an end to waste;
- Replacing office vehicles and school buses with new energy vehicles to reduce the air pollutant emissions;
- Strictly controlling the conditions and frequencies of the vehicles usage to encourage staff to use public transport to commute;

- Decorative lights and garden lamps are switched off on the campus, except for special needs; the street lights are equipped with time control switch and adjusted timely according to the weather forecast on the day, utilizing to the maximum extent natural light; the light switch in the public area of the school are replaced with the sound-control switches;

- Water-saving faucets are installed to avoid any emission, dripping or leakage;

- The centralized hot water supply by third-party companies is adopted in the student dormitories of various colleges, and third-party companies are required to strengthen technological innovation, upgrade boilers and improve energy efficiency.

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

Table of Energy and Resource Use

| Index | Unit | 2019 Data | 2018 Data |
|---|---|---|---|
| **Energy** | | | |
| Total energy consumption | Tonne of standard coal consumption | 5,294.55 | 3,909.5 |
| Electricity consumption | kWh | 39,049,723.2 | 28,042,517.4 |
| Pipeline gas | $m^3$ | 1,387,128.0 | 1,296,768.0 |
| Density of energy consumption | Tonne standard coal consumption per RMB1 million of revenue | 4.0 | 3.8 |
| **Use of resource** | | | |
| Office purchased paper | Tonne | / | 5.6 |
| Total used water | Tonne | 1,998,979.2 | 1,869,366.0 |
| Density of used water | Tonne per RMB1 million of revenue | 1,501.4 | 1,815.8 |

### Emission Reduction

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

Hope Education places emphasis on the construction of green campus with campus staff maintaining the campus environment and greening every day to ensure that the campus is clean and tidy and the environment is beautiful. The schools intersperse with High trees, shrubs, swards and fresh flowers throughout the year.

Table of Environmental Management

| Index | Unit | 2019 Data | 2018 Data |
|---|---|---|---|
| Total amount of hazardous waste | Tonne | 4.1 | 3.7 |
| Abandoned lighting tubes | Piece | 8,511 | 8,146 |
| Used printer toner cartridge | Piece | 103 | 99 |
| Used batteries | Piece | 3,566 | 3,476 |
| Scrapped ink cartridges | Piece | 47 | 35 |
| Recycled ink cartridges | Piece | 55 | 48 |
| Medical wastes | Tonne | 0.8 | 0.6 |
| Intensity of hazardous waste | Tonne per RMB1 million of revenue | 0.0031 | 0.0036 |
| **Non-hazardous waste** | | | |
| Total amount of non-hazardous waste | Tonne | 5,955.0 | 5,317.7 |
| Kitchen garbage | Tonne | 1,322.0 | 1,129.7 |
| Domestic garbage | Tonne | 4,633.0 | 4,188.0 |
| Intensity of non-hazardous waste | Tonne per RMB1 million of revenue | 4.5 | 5.2 |
| **Greenhouse gas emissions** | | | |
| Total $CO_2$ emissions | Tonne | 22,895.9 | 17,079.0 |
| $CO_2$ emissions Scope 1 | Tonne | 321.5 | 300.6 |
| $CO_2$ emissions Scope 2 | Tonne | 22,574.4 | 16,778.4 |
| Intensity of greenhouse gas emissions | Tonne of $CO_2$ equivalent per RMB1 million of revenue | 17.2 | 16.6 |

## APPENDIX: ESG INDEX

| ESG KPI | Guideline Requirements | Report section/statement |
|---|---|---|
| A1: Emissions | General Disclosure | Environmental Responsibility |
| | A1.1 The types of emissions and respective emissions data. | Environmental Responsibility–Emission Reduction<br>Not disclosed as the emissions are of little significance for the Group's operation. |
| | A1.2 Greenhouse gas emissions in total and, where appropriate, intensity. | Environmental Responsibility–Energy Saving |
| | A1.3 Total hazardous waste produced and, where appropriate, intensity. | Environmental Responsibility–Emission Reduction |
| | A1.4 Total non-hazardous waste produced and, where appropriate, intensity. | Environmental Responsibility–Emission Reduction |
| | A1.5 Description of measures to mitigate emissions and results achieved. | Environmental Responsibility–Emission Reduction |
| | A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Environmental Responsibility–Emission Reduction |
| A2: Use of Resources | General Disclosure | Environmental Responsibility – Energy Saving |
| | A2.1 Direct and/or indirect energy consumption by type in total and, where appropriate, intensity. | Environmental Responsibility – Energy Saving |
| | A2.2 Water consumption in total and, where appropriate, intensity. | Environmental Responsibility–Energy Saving |
| | A2.3 Description of Efficiency Energy Plan and its accomplishment | Environmental Responsibility–Energy Saving |
| | A2.4 Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Environmental Responsibility–Energy Saving<br>No issue in sourcing water. |
| | A2.5 Total packaging material used for finished products and with reference to per unit produced. | Not applicable. The Group does not use any product packaging materials during operation. |
| A3: Environment and Natural Resources | General Disclosure | Not disclosed as the impact on the environment and natural resources are of little significance for the Group's operation. |

| ESG KPI | Guideline Requirements | Report section/statement |
|---|---|---|
| | A3.1 Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Not disclosed as the impact on the environment and natural resources are of little significance for the Group's operation. |
| **B1: Employment** | General Disclosure | Social Responsibility-Staff Development |
| | B1.1 Total workforce by gender, employment type, age group and geographical region. | Social Responsibility-Staff Development |
| | B1.2 Employee turnover rate by gender, age group and geographical region. | Social Responsibility-Staff Development |
| **B2: Health and Safety** | General Disclosure | Educational Responsibility-Administrative Logistics Support Social Responsibility-Staff Development |
| | B2.1 Number and rate of work-related fatalities. | No work-related fatalities in 2019 |
| | B2.2 Lost days due to work injury. | No lost days due to work injury in 2019 |
| **B3: Development and Training** | General Disclosure | Social Responsibility-Staff Development |
| | B3.1 Percentage of employees trained by gender and employee category. | Social Responsibility-Staff Development |
| | B3.2 Average training hours completed per employee by gender and employee category. | Social Responsibility-Staff Development |
| **B4: Labour Standards** | General Disclosure | Social Responsibility-Staff Development |
| | B4.1 Description of measures to review employment practices to avoid child and forced labour. | Social Responsibility-Staff Development |
| | B4.2 Description of steps taken to eliminate such practices when discovered. | Social Responsibility-Staff Development |
| **B5: Supply Chain Management** | General Disclosure | Social Responsibility-Supply Management |
| | B5.1 Number of suppliers by geographical region. | Social Responsibility-Supply Management |

| ESG KPI | Guideline Requirements | Report section/statement |
|---|---|---|
| | B5.2 Description of practices relating to engaging supplies, number of supplies where the practices are being implemented, how they are implemented and monitored. | Social Responsibility-Supply Management |
| B6: Product Responsibility | General Disclosure | Educational Responsibility-Quality Education |
| | B6.1 Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Not applicable. The Group does not involve recalls for safety and health reasons during operation. |
| | B6.2 Number of products and service related complaints received and how they are dealt with. | Operation responsibility-Privacy Protection for students and parents |
| | B6.3 Description of practices relating to safeguarding and protecting intellectual property rights. | Operation responsibility-Protection of Intellectual property |
| | B6.4 Description of quality assurance process and recall procedures. | Not applicable. The Group does not involve product quality inspection and recall during operation. |
| | B6.5 Description of consumer data protection and privacy policies, how they are implemented and monitored. | Operation responsibility-Privacy Protection for students and parents |
| B7: Anti-corruption | General Disclosure | Operation Responsibility-Anti-corruption |
| | 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. | Operation Responsibility-Anti-corruption |
| | B7.2 Description of preventive measures and whistleblowing procedures, how they are implemented and monitored. | Operation Responsibility-Anti-corruption |
| B8: Community Investment | General Disclosure | Social Responsibility-Community Support |
| | B8.1 Focus areas of contribution. | Social Responsibility-Community Support |
| | B8.2 Resources contributed of the focus area. | Social Responsibility-Community Support |

# INDEPENDENT AUDITOR'S REPORT

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

## OPINION

We have audited the consolidated financial statements of Hope Education Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 125 to 232, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

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

## KEY AUDIT MATTERS *(Continued)*

**Key audit matter**

***Acquisitions of businesses***

During the year ended 31 December 2019, the Group completed several acquisitions and recognised goodwill and gain on bargain purchase of approximately RMB115 million, and RMB27 million, respectively. These acquisitions were accounted for using the acquisition method of accounting where the Group performed purchase price allocation exercises as disclosed in note 30 to the financial statements. The Group engaged an independent external expert with relevant qualifications to perform valuation on the fair values of the identifiable assets acquired and liabilities assumed as at the acquisition dates of the businesses acquired, respectively. The accounting for business combinations involved the use of significant management judgements and estimates for identifying a business combination, determining the acquisition date, measuring identifiable assets acquired and liabilities assumed at fair value, recognising and allocation of intangible assets and goodwill or gain on bargain purchase.

The Group's disclosures about the abovementioned acquisitions of businesses are included in note 2.4 and note 30 to the financial statements.

**How our audit addressed the key audit matter**

We performed the following procedures in our audit for this matter:

- Examined the supporting documents including the share transfer agreements, amended articles of association, the board resolutions, the related documents about changes of directors and transfer of control right and assets;
- Tested the identification of assets and liabilities based on our understanding of the acquired businesses;
- Evaluated the accounting treatment applied to the transactions;
- Assessed the management judgement of the acquisition dates;
- Evaluated the competence, capabilities and objectivity of the independent valuers engaged by management in assessing the purchase price allocation;
- Involved our internal valuation specialists to evaluate the methodologies and key valuation parameters adopted in determining fair values of identifiable assets acquired and liabilities assumed; and
- Evaluated the accuracy of the accounting treatment on the date of acquisitions and reviewed the financial statement disclosures.

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Preferential tax treatment*** | |
| As set out in note 10 to the financial statements, according to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council.<br><br>No corporate income tax was provided on the income from the provision of formal education services by the Group's certain private schools in the People's Republic of China (the "PRC Private Schools"), which have elected to be private schools requiring reasonable returns. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, those PRC Private Schools did not pay corporate income tax for the income from formal educational services and has enjoyed the preferential tax treatment since their establishment. As a result, no income tax expense was recognised for the income from formal educational services provided by those PRC Private Schools during the year.<br><br>There were significant judgements involved in management's analysis and assessment, such as the assessment on the possible outcome of the tax provision based on historical experiences and interpretation of the relevant tax laws and regulations in respect of the preferential tax treatment enjoyed by those PRC Private Schools.<br><br>The Group's disclosures about the income tax are included in note 3 and note 10 to the financial statements. | The audit procedures included the following:<br><br>• Discussed with management to evaluate their interpretation of the tax laws and their assessment of the tax obligations of the schools operated by the Group for the current year;<br><br>• Evaluated management's assessment on the application of the preferential tax or applicable tax rate to the respective schools;<br><br>• Examined the historical tax filing returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, where appropriate;<br><br>• Discussed with the Group's external PRC legal advisors to understand their view with respect to the interpretation of the existing applicable laws which would have an impact on the applicable tax on the respective schools;<br><br>• Assessed any new policies, regulations or rules that have been introduced by the authorities, which might have an impact on the tax position taken by the Group up to the date of approval of these financial statements; and<br><br>• Involved our internal tax specialist to assist us in assessing the uncertainties arising from the preferential tax treatment enjoyed by the Group's schools. |

## KEY AUDIT MATTERS *(Continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment of goodwill* | |
| The Group recorded a significant amount of goodwill of RMB596 million as at 31 December 2019. Management has performed an annual impairment test on the recoverability of goodwill as required by IAS 36. No impairment charge has been recorded against goodwill in the current year. Certain assumptions used in the impairment review were subjective and involved significant judgements and estimates, and they included:<br>• the future cash flow growth assumptions used in the Group's most recent budgets for the next five years approved by the board of directors, including future industry development, pricing strategies, market supply and demand, and EBIT;<br>• the growth rate used beyond the period covered by the budgets; and<br>• the discount rate applied to future cash flows.<br><br>The accounting estimates and disclosures related to the impairment assessment of goodwill are included in note 3 and note 15 to the financial statements. | In order to evaluate the impairment test carried out by management and assess the value-in-use of the cash-generating unit, we performed the following procedures:<br>• Evaluated management's future cash flow forecasts and the process by which they were drawn up;<br>• Assessed the actual performance in the year against the prior year budgets to evaluate historical forecasting accuracy;<br>• Analysed the key assumptions adopted by management, such as the growth rates of students, tuition and boarding fees and expenses during the forecast periods by checking to the historical trend and industry index;<br>• Performed sensitivity analyses on the forecasts;<br>• Involved our internal valuation specialists to assist us in evaluating the methodologies and key valuation parameters used by the Group and the discount rate used by comparing to the industry index; and<br>• Evaluated the adequacy of the Group's disclosures regarding goodwill impairment testing. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Ernst & Young***
Certified Public Accountants

Hong Kong
27 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2019

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | **1,331,375** | 1,029,523 |
| Cost of sales | | **(656,873)** | (562,286) |
| Gross profit | | **674,502** | 467,237 |
| Other income and gains | 5 | **253,628** | 211,510 |
| Gain on a bargain purchase | 30(b) | **27,256** | – |
| Selling expenses | | **(45,283)** | (20,804) |
| Administrative expenses | | **(172,401)** | (267,452) |
| Other expenses | | **(16,459)** | (27,965) |
| Finance costs | 6 | **(170,681)** | (201,172) |
| Share of profits/(losses) of a joint venture | | **5,177** | (1,858) |
| Profit before tax | 7 | **555,739** | 159,496 |
| Income tax credit/(expense) | 10 | **(65,708)** | 7,841 |
| Profit for the year | | **490,031** | 167,337 |
| Other comprehensive income for the year | | **–** | – |
| Total comprehensive income for the year | | **490,031** | 167,337 |
| Profit and total comprehensive income attributable to: | | | |
| Owners of the Company | | **489,872** | 167,916 |
| Non-controlling interests | | **159** | (579) |
| | | **490,031** | 167,337 |
| Earnings per share attributable to ordinary equity holders of the Company: | 12 | | |
| Basic | | **RMB0.073** | RMB0.030 |
| Diluted | | **RMB0.072** | RMB0.028 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2019

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **4,563,972** | 3,448,267 |
| Right-of-use assets | 14(b) | **1,163,340** | – |
| Prepaid land lease payments | 14(a) | **–** | 590,015 |
| Goodwill | 15 | **595,820** | 481,143 |
| Amounts due from related parties | 33(c) | **275,110** | – |
| Other intangible assets | 16 | **218,976** | 133,596 |
| Investment in a joint venture | 17 | **196,242** | – |
| Prepayments, deposits and other receivables | 19 | **224,815** | 466,225 |
| Restricted bank balance | 21 | **108,787** | – |
| Deferred tax assets | 26 | **1,404** | – |
| Total non-current assets | | **7,348,466** | 5,119,246 |
| **CURRENT ASSETS** | | | |
| Trade receivables | 18 | **3,714** | – |
| Prepayments, deposits and other receivables | 19 | **720,787** | 128,729 |
| Amounts due from related parties | 33(c) | **30,868** | 4,314 |
| Structured deposits | 20 | **1,002,967** | – |
| Other financial assets at fair value through profit or loss | 20 | **9,310** | – |
| Restricted bank balance | 21 | **50,000** | – |
| Cash and cash equivalents | 21 | **1,690,419** | 3,038,905 |
| Total current assets | | **3,508,065** | 3,171,948 |
| **CURRENT LIABILITIES** | | | |
| Contract liabilities | 5 | **806,431** | 590,785 |
| Trade payables | 22 | **33,610** | – |
| Other payables and accruals | 23 | **1,142,865** | 637,459 |
| Lease liabilities | 14(c) | **27,825** | – |
| Deferred income | 24 | **32,545** | 9,407 |
| Interest-bearing bank and other borrowings | 25 | **1,003,293** | 526,680 |
| Amounts due to related parties | 33(c) | **30,763** | 52,953 |
| Taxes payable | 10 | **65,203** | 34,053 |
| Total current liabilities | | **3,142,535** | 1,851,337 |
| NET CURRENT ASSETS | | **365,530** | 1,320,611 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **7,713,996** | 6,439,857 |

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Deferred income | 24 | **1,072,673** | 658,083 |
| Interest-bearing bank and other borrowings | 25 | **1,593,599** | 1,605,052 |
| Deferred tax liabilities | 26 | **5,889** | 10,154 |
| Lease liabilities | 14(c) | **132,662** | – |
| Other payable | 23 | **343,885** | 6,416 |
| Total non-current liabilities | | **3,148,708** | 2,279,705 |
| **NET ASSETS** | | **4,565,288** | 4,160,152 |
| **EQUITY** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | 27 | **454** | 454 |
| Reserves | 29 | **4,561,763** | 4,156,816 |
| | | **4,562,217** | 4,157,270 |
| Non-controlling interests | | **3,071** | 2,882 |
| Total equity | | **4,565,288** | 4,160,152 |

**Xu Changjun**
*Director*

**Wang Huiwu**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (note 27) | Share premium* RMB'000 | Capital reserve* RMB'000 (note 29) | Statutory surplus reserve* RMB'000 (note 29) | Share option reserve* RMB'000 (note 28) | Retained profits* RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2018 | – | – | 83,090 | 174,900 | – | 391,474 | 649,464 | 29,924 | 679,388 |
| Profit and total comprehensive income for the year | – | – | – | – | – | 167,916 | 167,916 | (579) | 167,337 |
| Issue of new shares | 3 | – | – | – | – | – | 3 | – | 3 |
| Capitalisation issue of new shares | 337 | – | – | – | – | – | 337 | – | 337 |
| Issue of new shares for the Initial Public Offering ("IPO") | 114 | 2,785,710 | – | – | – | – | 2,785,824 | – | 2,785,824 |
| Share issue expenses | – | (83,955) | – | – | – | – | (83,955) | – | (83,955) |
| Transfer from retained profits | – | – | – | 59,321 | – | (59,321) | – | – | – |
| Disposal of a subsidiary | – | – | – | – | – | – | – | (26,463) | (26,463) |
| Equity-settled share option arrangements | – | – | – | – | 122,345 | – | 122,345 | – | 122,345 |
| Conversion of the convertible bond | – | – | 233,428 | – | – | – | 233,428 | – | 233,428 |
| Transfer from the liability of a put option granted to a shareholder | – | – | 281,908 | – | – | – | 281,908 | – | 281,908 |
| At 31 December 2018 and 1 January 2019 | 454 | 2,701,755 | 598,426 | 234,221 | 122,345 | 500,069 | 4,157,270 | 2,882 | 4,160,152 |
| Profit and total comprehensive income for the year | - | - | - | - | - | 489,872 | 489,872 | 159 | 490,031 |
| Transfer from retained profits | - | - | - | 85,749 | - | (85,749) | - | - | |
| Deemed contribution from equity holders of the Company (note 31) | - | - | 48,042 | - | - | - | 48,042 | - | 48,042 |
| Acquisition of a subsidiary with non-controlling interest (note 31) | - | - | - | - | - | - | - | 30,000 | 30,000 |
| Acquisition of non-controlling interest (note 31) | - | - | (48,000) | - | - | - | (48,000) | (30,000) | (78,000) |
| Capital contribution by a non-controlling shareholder | - | - | - | - | - | - | - | 30 | 30 |
| Final 2018 dividend declared | - | (105,495) | - | - | - | - | (105,495) | - | (105,495) |
| Equity-settled share option arrangements | - | - | - | - | 20,528 | - | 20,528 | - | 20,528 |
| At 31 December 2019 | 454 | 2,596,260 | 598,468 | 319,970 | 142,873 | 904,192 | 4,562,217 | 3,071 | 4,565,288 |

* These reserve accounts comprise the consolidated reserves of RMB4,561,763,000 in the consolidated statement of financial position as at 31 December 2019 (2018: RMB4,156,816,000).

Year ended 31 December 2019

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Profit before tax** | | 555,739 | 159,496 |
| Adjustments for: | | | |
| Depreciation of items of property, plant and equipment | 7 | 163,700 | 136,537 |
| Depreciation of right-of-use assets/recognition of prepaid land lease payments | 7 | 42,977 | 15,082 |
| Amortisation of other intangible assets | 7 | 10,855 | 9,051 |
| Deferred income released to profit or loss | 5 | (15,508) | (8,662) |
| Interest income | 5 | (94,489) | (78,924) |
| Finance costs | 6 | 170,681 | 201,172 |
| (Gains)/losses on disposal of items of property, plant and equipment, net | 5,7 | (17,262) | 21,914 |
| Losses/(gains) on disposal of subsidiaries | 7 | 2,011 | (8,256) |
| Gain on bargain purchase | 30 | (27,256) | – |
| Fair value gains of a conversion right of the convertible bond | | – | (13,271) |
| Equity-settled share option expense | 28 | 20,528 | 122,345 |
| Share of losses/(gains) of a joint venture | | (5,177) | 1,858 |
| Fair value gains, net | 5 | (16,557) | (2,174) |
| Foreign exchange gains, net | | (37,965) | (5,171) |
| | | 752,277 | 550,997 |
| (Increase)/decrease in prepayments, deposits and other receivables | | (97,928) | 50,234 |
| Increase in trade receivables | | (3,180) | – |
| (Increase)/decrease in amounts due from related parties | | (19,200) | 71,136 |
| Increase in contract liabilities | | 93,466 | 55,517 |
| Increase in trade payables | | 33,610 | – |
| Increase/(decrease) in amounts due to related parties | | (2,829) | 4,813 |
| Increase/(decrease) in other payables and accruals | | (54,501) | 67,132 |
| Receipt of government grants related to expense items | | 3,484 | – |
| Cash generated from operations | | 705,199 | 799,829 |
| Bank interest received | | 33,102 | 21,815 |
| Corporate income tax and land appreciation tax paid | | (41,271) | (19,211) |
| Net cash flows from operating activities | | 697,030 | 802,433 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | (278,978) | (623,882) |
| Prepaid land lease payments | | (293,590) | (12,349) |
| Additions to other intangible assets | | (3,377) | (23,534) |
| Payment of other payables relating to disposal of items of property, plant and equipment in the prior year | | (19,887) | – |
| Refundable deposit related to proposed equity acquisition | | – | (30,000) |
| Acquisition of subsidiaries | 30 | (377,031) | (15,000) |
| Acquisition of a subsidiary that is not a business | 31 | (69,999) | – |
| Proceeds from disposal of items of property, plant and equipment | | 26,439 | 27,022 |
| Decrease/(increase) in amounts due from related parties | | (275,337) | 643,394 |
| Receipt of government grants for property, plant and equipment | | 420,106 | 38,239 |
| Increase in a restricted bank balance | | (158,787) | – |
| Loans to independent third parties | | (22,000) | (447,670) |
| Decrease/(increase) in time deposits with original maturity of over three months | | 154,014 | (450,000) |
| Disposal of a subsidiary | | – | 69,608 |
| Decrease/(increase) in financial assets at fair value through profit or loss, net | | (1,011,670) | 8,241 |
| Investment income from financial assets at fair value through profit or loss | | 16,983 | 2,174 |
| Interest income received from time deposits | | 26,918 | – |
| Loan repaid by an independent third party | | 1,120 | – |
| Interest income received from an independent third party | | 154 | – |
| Interest income received from related parties | | – | 44,546 |
| Net cash flows used in investing activities | | (1,864,922) | (769,211) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2019

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from bank and other borrowings | | 944,950 | 1,999,619 |
| Repayment of bank and other borrowings | | (632,212) | (1,740,215) |
| Redemption of convertible bonds | | – | (400,000) |
| Interest paid | | (123,824) | (195,087) |
| Dividends paid | | (105,495) | – |
| Principal portion of lease payments | | (14,479) | – |
| Interest portion of the lease liabilities | | (10,660) | – |
| Proceeds from issue of shares for the IPO | | – | 2,786,161 |
| Share issue expenses | | – | (81,298) |
| Acquisition of non-controlling interest | 31 | (60,000) | – |
| Capital contribution by a non-controlling shareholder | | 30 | – |
| Loans from related parties | | – | 100,000 |
| Repayment of loans from related parties | | (34,787) | (100,000) |
| Repayment of other loans recorded in other payables | | (28,068) | – |
| Net cash flows from/(used in) financing activities | | (64,545) | 2,369,180 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | (1,232,437) | 2,402,402 |
| Cash and cash equivalents at beginning of the year | | 2,588,905 | 181,332 |
| Effect of foreign exchange rate changes, net | | 37,965 | 5,171 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | 1,394,433 | 2,588,905 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:** | | | |
| Cash and cash equivalents as stated in the consolidated statement of financial position | 21 | 1,690,419 | 3,038,905 |
| Less: Time deposits with original maturity of over three months | 21 | (295,986) | (450,000) |
| Cash and cash equivalents as stated in the consolidated statement of cash flows | | 1,394,433 | 2,588,905 |

## 1. CORPORATE AND GROUP INFORMATION

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

The Company is an investment holding company. During the year, the Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the provision of higher education services in the People's Republic of China (the "PRC"). There were no significant changes in the nature of the Group's principal activities during the year.

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

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

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries

Particulars of the Company's principal subsidiaries which are wholly-owned by the Company are as follows:

| Entity/school name | Date and place of incorporation/ establishment and place of operations | Issued ordinary/ registered share capital | Principal activities |
|---|---|---|---|
| *Directly owned by the Company:* | | | |
| Hope Education Group (Hong Kong) Co., Ltd. ("Hope Education HK") 希望教育集團(香港)有限公司 | 10 March 2017 The PRC/Hong Kong | HK$1 | Investment holding |
| *Indirectly owned by the Company:* | | | |
| Horgos Tequ Mayflower Information Technology Co., Ltd. ("WFOE") 霍爾果斯特驅五月花信息科技有限公司(i) | 19 January 2018 The PRC/Mainland China | RMB50 million | Provision of technical management and consultancy service |
| Sichuan Hope Education Industry Group Limited ("Hope Education") 四川希望教育產業集團有限公司(ii)(iv) | 12 January 2005 The PRC/Mainland China | RMB52.5 million | Investment holding |
| Sichuan Tequ Mayflower Education Management Co., Ltd. ("Tequ Mayflower") 四川特驅五月花教育管理有限公司(i) | 8 April 2018 The PRC/Mainland China | RMB50 million | Sale of textbooks and dormitory bedding |
| Southwest Jiaotong University Hope College 西南交通大學希望學院(ii) | 16 July 2009 The PRC/Mainland China | RMB300 million | Provision of higher education services |
| Business College of Guizhou University of Finance and Economics 貴州財經大學商務學院(ii) | 18 January 2004 The PRC/Mainland China | RMB50 million | Provision of higher education services |
| Jinci College of Shanxi Medical University 山西醫科大學晉祠學院(ii) | 17 June 2002 The PRC/Mainland China | RMB5 million | Provision of higher education services |
| Sichuan Vocational College of Culture & Communication 四川文化傳媒職業學院(ii) | 22 September 2005 The PRC/Mainland China | RMB20 million | Provision of higher education services |
| Tianyi College 天一學院(ii) | 14 March 1994 The PRC/Mainland China | RMB23.3 million | Provision of higher education services |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries which are wholly-owned by the Company are as follows:

| Entity/school name | Date and place of incorporation/ establishment and place of operations | Issued ordinary/ registered share capital | Principal activities |
|---|---|---|---|
| *Indirectly owned by the Company: (Continued)* | | | |
| Guizhou Vocational Institute of Technology 貴州應用技術職業學院[(ii)] | 12 June 2016 The PRC/Mainland China | RMB20 million | Provision of higher education services |
| Sichuan Hope Automotive Technician School 四川希望汽車技師學院[(ii)] | 4 November 2016 The PRC/Mainland China | RMB20 million | Provision of technician education services |
| Sichuan Hope Automotive Vocational College 四川希望汽車職業學院[(ii)] | 24 June 2013 The PRC/Mainland China | RMB20 million | Provision of higher education services |
| Sichuan TOP Education Co., Ltd. ("Top Education") 四川托普教育股份有限公司[(ii)(iv)] | 28 June 2000 The PRC/Mainland China | RMB150 million | Investment holding |
| Sichuan TOP IT Vocational Institute 四川托普信息技術職業學院[(ii)] | 22 April 2000 The PRC/Mainland China | RMB5 million | Provision of higher education services |
| Suzhou Top Institute of Information Technology ("Suzhou Top Institute") 蘇州托普信息職業技術學院[(ii)(iii)] | 2 July 2003 The PRC/Mainland China | RMB5 million | Provision of higher education services |
| Kunshan Gongmao Technical School and Business School ("Kunshan Technical School") 昆山工貿技工學校[(ii)(iii)] | 1 September 2018 The PRC/Mainland China | RMB5 million | Provision of secondary vocational education services |
| Hebi Automotive Engineering Professional College ("Hebi Automotive") 鶴壁汽車工程職業學院[(ii)(iii)] | 8 September 2011 The PRC/Mainland China | RMB45 million | Provision of higher education services |
| Yinchuan University of Energy 銀川能源學院[(ii)(iii)] | 24 August 2001 The PRC/Mainland China | RMB191.3 million | Provision of higher education services |
| Vocational-technical Training Center of Yinchuan University ("Yinchuan Training Center") 銀川大學職業技能培訓中心[(ii)(iii)] | 24 August 2001 The PRC/Mainland China | RMB100,000 | Provision of training services |
| Yinchuan Vocational School of Science and Technology ("Yinchuan Vocational School") 銀川科技職業學校[(ii)(iii)] | 26 October 2017 The PRC/Mainland China | Nil | Provision of secondary vocational education services |

## 1. CORPORATE AND GROUP INFORMATION *(Continued)*

### Information about subsidiaries *(Continued)*

Particulars of the Company's principal subsidiaries which are wholly-owned by the Company are as follows:

| Entity/school name | Date and place of incorporation/ establishment and place of operations | Issued ordinary/ registered share capital | Principal activities |
|---|---|---|---|
| *Indirectly owned by the Company: (Continued)* | | | |
| Ningxia Modern Senior Technical School ("Technical School") 寧夏現代高級技工學校(ii)(iii) | 15 December 2016 The PRC/Mainland China | RMB2 million | Provision of technician training services |
| Chongqing Mingrui Xincheng Education Information Consulting Co., Ltd. 重慶名睿新誠教育信息諮詢有限公司(ii)(iv) | 4 June 2019 The PRC/Mainland China | RMB5 million | Investment holding |
| Zhangshu Yude Education Management Co., Ltd. 樟樹市育德教育管理有限公司(ii)(iv) | 6 June 2019 The PRC/Mainland China | RMB2 million | Investment holding |
| Chongqing Zhongsheng Real Estate Development Co., Ltd. 重慶忠勝房地產開發有限公司(iv) | 13 August 2019 The PRC/Mainland China | RMB8 million | Provision of real estate development service |
| Weixian Giant Education Technology Co., Ltd. 威縣巨人教育科技有限公司(ii)(iv) | 25 October 2019 The PRC/Mainland China | RMB5 million | Investment holding |

Notes:

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

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

(iii) During the year, these entities and sponsoring schools were acquired from independent third parties, details of which are included in note 30 to the financial statements.

(iv) These subsidiaries are registered as domestic enterprises with limited liability under the PRC law.

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

## 2.1 BASIS OF PREPARATION *(Continued)*

**Basis of consolidation** *(Continued)*

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to IFRS 9 | *Prepayment Features with Negative Compensation* |
| IFRS 16 | *Leases* |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| IFRIC 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements 2015-2017 Cycle* | Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 |

Except for the adoption of IFRS 16, the adoption of the above new interpretation and amendments to IFRSs has had no significant financial effect on the preparation of the Group's financial statements. The nature and the impact of IFRS 16 are described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease,* SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

**New definition of a lease**

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a 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 obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

**As a lessee – Leases previously classified as operating leases**

*Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of leasehold land, school campuses, dormitories and motor vehicles. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

*Impact on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The Group elected to present the lease liabilities separately in the statement of financial position. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

**As a lessee – Leases previously classified as operating leases** *(Continued)*

*Impact on transition (Continued)*

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics when measuring the lease liabilities at 1 January 2019

**Financial impact at 1 January 2019**

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

| | Increase/ (decrease) RMB'000 |
|---|---|
| **Assets** | |
| Increase in right-of-use assets | 723,760 |
| Decrease in prepaid land lease payments | (590,015) |
| Decrease in prepayments, deposits and other receivables | (13,883) |
| Increase in total assets | 119,862 |
| **Liabilities** | |
| Increase in lease liabilities | 162,595 |
| Decrease in other payables – accrued lease payments | (42,733) |
| Increase in total liabilities | 119,862 |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

**Financial impact at 1 January 2019** *(Continued)*

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as at 31 December 2018 as follows:

| | RMB'000 |
|---|---|
| Gross operating lease commitments as at 31 December 2018 | 199,662 |
| Weighted average incremental borrowing rate as at 1 January 2019 | 6.59% |
| Discounted operating lease commitments at 1 January 2019 | 151,228 |
| Add: | |
| Payments for optional extension periods not recognised as at 31 December 2018 | 11,367 |
| Lease liabilities as at 1 January 2019 | 162,595 |

## 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

| | |
|---|---|
| Amendments to IFRS 3 | *Definition of a Business*[1] |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | *Interest Rate Benchmark Reform*[1] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| Amendments to IAS 1 | *Classification of Liabilities as Current or Non-current*[2] |
| IFRS 17 | *Insurance Contracts*[3] |
| Amendments to IAS 1 and IAS 8 | *Definition of Material*[1] |

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

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

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

## 2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs *(Continued)*

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

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investment in a joint venture

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

The Group's investment in a joint venture is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

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

### Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Business combinations and goodwill** *(Continued)*

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

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

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

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

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

**Fair value measurement**

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Fair value measurement** *(Continued)*

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

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

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

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

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

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

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

**Impairment of non-financial assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Impairment of non-financial assets** *(Continued)*

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

**Related parties**

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

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

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

or

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Related parties** *(Continued)*

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

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

**Property, plant and equipment and depreciation**

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

**Intangible assets (other than goodwill)**

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

*Software*

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

*Cooperation arrangements to operate independent colleges*

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

*Licence*

Licence represented the rights granted by the Ministry of Education of the PRC to operate undergraduate institutions acquired in a business combination, which are recognised at fair value at the acquisition date and are amortised on the straight-line basis over their estimated useful lives of 35 years.

**Leases (applicable from 1 January 2019)**

The Group assesses at contract inception whether a 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Leases (applicable from 1 January 2019)** *(Continued)*

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| | |
|---|---|
| Leasehold land | 20 to 50 years |
| School campuses | 1 to 2 years |
| Dormitories | 11 to 12 years |
| Motor vehicles | 2 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Leases (applicable from 1 January 2019)** *(Continued)*

*Group as a lessee (Continued)*

(b) Lease liabilities *(Continued)*

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group elected to present lease liabilities separately in the consolidated financial statement of financial position.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of motor vehicles (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

*Group as a lessor – operating leases*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. 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. Rental income is accounted for on a straight-line basis over the lease terms and is included in other income in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Leases (applicable before 1 January 2019)**

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

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

**Investments and other financial assets**

*Initial recognition and measurement*

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

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

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Investments and other financial assets** *(Continued)*

*Initial recognition and measurement (Continued)*

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

*Subsequent measurement*

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

*Financial assets at amortised cost (debt instruments)*

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

*Financial assets at fair value through profit or loss*

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

**Derecognition of financial assets**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Derecognition of financial assets** *(Continued)*

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

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

**Impairment of financial assets**

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

*General approach*

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Impairment of financial assets** *(Continued)*

*General approach (Continued)*

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

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

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

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

*Simplified approach*

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

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

*Subsequent measurement*

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

*Financial liabilities at amortised cost (loans and borrowings)*

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

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

*Convertible bonds*

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

**Derecognition of financial liabilities**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Offsetting of financial instruments

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

### Cash and cash equivalents

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

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

### Provisions

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

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

### Income tax

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Income tax** *(Continued)*

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Government grants

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

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

### Revenue recognition

*Revenue from contracts with customers*

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Revenue recognition** *(Continued)*

*Revenue from contracts with customers (Continued)*

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

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

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

*Sale of goods*

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

*Other income*

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

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

**Contract liabilities**

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Share-based payments**

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Share-based payments** *(Continued)*

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

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

**Other employee benefits**

*Pension scheme*

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

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for employees of the Group's subsidiary which operates in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

***Housing fund***

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Borrowing costs

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

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 11 to the financial statements.

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

### Foreign currencies

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

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

**Judgements**

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

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

*Structured Contracts*

The Group conducts the provision of the private higher education services through the Consolidated Affiliated Entities as the PRC laws and regulations restrict the foreign ownership in the private higher education industry in the PRC.

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

The Company does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Structured Contracts, the Company has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities and has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is therefore considered to have control over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries. The Group has consolidated the financial position and results of the Consolidated Affiliated Entities in the financial statements during the year.

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

*Income tax*

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

### Estimation uncertainty

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB595,820,000 (2018: RMB481,143,000). Further details are given in note 15 to the financial statements.

*Leases – Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

*Impairment of non-financial assets (other than goodwill)*

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

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

**Estimation uncertainty** *(Continued)*

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

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

## 4. OPERATING SEGMENT INFORMATION

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

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

**Entity-wide disclosures**

*Geographical information*

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

*Information about major customers*

No revenue from a single customer amounted to 10% or more of the total revenue of the Group during the years ended 31 December 2019 and 2018.

## 5. REVENUE, OTHER INCOME AND GAINS

### Revenue

Revenue represents the values of services rendered after deducting scholarships and refunds during the year.

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

*(a) Disaggregated revenue information*

| | Note | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Type of services** | | | |
| Tuition fees | | **1,092,933** | 854,281 |
| Boarding fees | | **102,547** | 85,403 |
| Sales of books and daily necessities | | **35,083** | – |
| Others | (i) | **100,812** | 89,839 |
| | | **1,331,375** | 1,029,523 |

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Timing of revenue recognition** | | |
| Services transferred over time | **1,296,292** | 1,029,523 |
| Goods transferred at a point in time | **35,083** | – |
| Total revenue from contracts with customers | **1,331,375** | 1,029,523 |

*(b) Performance obligations*

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

Provision of education services

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

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

**Revenue** *(Continued)*

*(b) Performance obligations (Continued)*

Sales of goods

The performance obligation is satisfied upon delivery of goods and payment in advance is normally required.

Changes in contract liabilities during the year are as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Carrying amount at 1 January | **590,785** | 535,268 |
| Additions from acquisition of subsidiaries (note 30) | **122,180** | – |
| Revenue recognised that was included in the contract liabilities at 1 January | **(589,814)** | (534,154) |
| Revenue recognised that was included in the contract liabilities arising from acquisition of subsidiaries | **(87,420)** | – |
| Increase due to cash received, excluding amounts recognised as revenue during the year | **770,700** | 589,671 |
| Carrying amount at 31 December | **806,431** | 590,785 |

Contract liabilities at the end of each reporting period represented advances received from students. The Group receives tuition and boarding fees from students in advance prior to the beginning of each academic year. Tuition and boarding fees are recognised proportionately over the relevant period of the respective applicable program. The students are entitled to the refund of payments in relation to the proportionate services not yet rendered. The increase in contract liabilities in 2019 and 2018 was mainly due to the increase in short-term advances received from students in relation to the provision of higher education services at the end of the year.

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

**Revenue** *(Continued)*

*(b) Performance obligations (Continued)*

Sales of goods *(Continued)*

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of the reporting period are as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Amounts expected to be recognised as revenue: | | |
| Within one year | **802,045** | 589,814 |
| After one year | **4,386** | 971 |
| | **806,431** | 590,785 |

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue after one year relate to higher education services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year.

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

### Other income and gains

An analysis of other income and gains is as follows:

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Other income** | | | |
| Bank interest income | | 56,965 | 27,795 |
| Interest income from loans to related parties | 33 | 5,413 | 27,577 |
| Interest income from loans to an independent third party | | 32,111 | 23,552 |
| Total interest income | | 94,489 | 78,924 |
| Deferred income released to profit or loss: | 24 | | |
| – related to assets | | 10,250 | 8,662 |
| – related to expenses | | 5,258 | – |
| Government grants received | (ii) | 10,799 | 17,856 |
| Rental income | | 17,517 | 17,561 |
| Service income | (iii) | 33,926 | 45,349 |
| Donation income | | 422 | 391 |
| Guarantee income | | – | 2,267 |
| Others | | 8,011 | 6,743 |
| | | 180,672 | 177,753 |
| **Gains** | | | |
| Gains on disposal of items of property, plant and equipment | | 18,434 | 1,487 |
| Fair value gains of a conversion right of the convertible bond | | – | 13,271 |
| Fair value gains on financial assets at fair value through profit or loss, net | | 16,557 | 2,174 |
| Gain on exchange differences, net | | 37,965 | 8,569 |
| Gain on disposal of a subsidiary | | – | 8,256 |
| | | 72,956 | 33,757 |
| Total other income and gains | | 253,628 | 211,510 |

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

### Other income and gains *(Continued)*

Notes:

(i) During the years ended 31 December 2019 and 2018, others mainly represent income received from the provision of other education services, including self-study examination education services, adult education services and training services to the students, which was amortised within the training periods of the service rendered.

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

(iii) During the years ended 31 December 2019 and 2018, service income mainly represents income derived from granting the rights of canteen and convenient store operations to independent third party operators; and income from services provided to students related to purchase of textbooks, dormitory bedding and exam materials.

## 6. FINANCE COSTS

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Interest on bank and other borrowings | 155,084 | 162,988 |
| Less: interest capitalised (note 13(b)) | (2,210) | (8,122) |
| Increase in the discounted amount of payables arising from the passage of time | 7,147 | 46,306 |
| Interest on lease liabilities | 10,660 | – |
| | 170,681 | 201,172 |
| Interest rate/capitalisation rate of borrowing costs capitalised | 4.75% to 8.55% | 4.75% to 6.3% |

## 7. PROFIT BEFORE TAX

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

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Cost of service provided | | 656,873 | 562,286 |
| Employee benefit expense: | | | |
| Wages and salaries | | 313,101 | 262,733 |
| Equity-settled share option expense | 28 | 10,186 | 40,464 |
| Pension scheme contributions (defined contribution scheme) | | 63,156 | 53,223 |
| | | 386,443 | 356,420 |
| Management fees | (i) | 125,369 | 112,059 |
| Depreciation of property, plant and equipment | 13 | 163,700 | 136,537 |
| Depreciation of right-of-use assets (2018: amortisation of land lease payments) | 14 | 42,977 | 15,082 |
| Amortisation of other intangible assets | 16 | 10,855 | 9,051 |
| Marketing and advertising costs | | 15,406 | 8,393 |
| Listing expenses | | – | 33,679 |
| Rental expense | | – | 27,599 |
| Lease payments not included in the measurement of lease liabilities | 14 | 1,229 | – |
| Auditors' remuneration | | 6,500 | 4,827 |
| Equity-settled share option expense | 28 | 10,342 | 81,881 |
| Losses on disposal of subsidiaries | | 2,011 | – |
| Losses on disposal of items of property, plant and equipment | | 1,172 | 23,401 |

Note:

(i) During the years ended 31 December 2019 and 2018, management fees represented the annual fees payable to the universities where the Group had entered into cooperation agreements to operate independent colleges. Management fees are charged based on a certain percentage of tuition fees received or receivable by the Group.

## 8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Fees | **1,577** | 974 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **67** | 149 |
| Equity-settled share option expense | **714** | 2,903 |
| Pension scheme contributions | **40** | – |
| | **821** | 3,052 |
| | **2,398** | 4,026 |

During the prior year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

### (a) Independent non-executive directors

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Mr. Zhang Jin | **127** | 54 |
| Mr. Chen Yunhua | **127** | 54 |
| Mr. Gao Hao | **127** | 54 |
| | **381** | 162 |

There were no other emoluments payable to the independent non-executive directors during the year (2018: N/A).

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

### (b) Executive directors and non-executive directors

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Equity-settled share option expense RMB'000 | Pension scheme contribution RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **Executive directors:** | | | | | |
| Mr. Wang Huiwu* | 422 | – | – | 29 | 451 |
| Mr. Xu Changjun | 422 | – | 152 | – | 574 |
| Mr. Li Tao | 352 | 67 | 562 | 11 | 992 |
| | 1,196 | 67 | 714 | 40 | 2,017 |
| **Non-executive directors:** | | | | | |
| Mr. Wang Degen | – | – | – | – | – |
| Mr. Lu Zhichao | – | – | – | – | – |
| Mr. Tang Jianyuan | – | – | – | – | – |
| | – | – | – | – | – |
| | 1,196 | 67 | 714 | 40 | 2,017 |
| 2018 | | | | | |
| Executive directors: | | | | | |
| Mr. Wang Huiwu | 203 | – | – | – | 203 |
| Mr. Xu Changjun | 203 | 149 | 499 | – | 851 |
| Mr. Li Tao | 203 | – | 2,404 | – | 2,607 |
| | 609 | 149 | 2,903 | – | 3,661 |
| Non-executive directors: | | | | | |
| Mr. Wang Degen | 203 | – | – | – | 203 |
| Mr. Lu Zhichao | – | – | – | – | – |
| Mr. Tang Jianyuan | – | – | – | – | – |
| | 203 | – | – | – | 203 |
| | 812 | 149 | 2,903 | – | 3,864 |

* Mr Wang Huiwu is also the chief executive of the Company.

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

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees are:

| | Number of employees | |
|---|---|---|
| | 2019 | 2018 |
| Director | 1 | 1 |
| Non-director | 4 | 4 |
| | 5 | 5 |

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | 1,494 | 998 |
| Equity-settled share option expense | 1,261 | 5,427 |
| Pension scheme contributions | 252 | 176 |
| | 3,007 | 6,601 |

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

| | Number of employees | |
|---|---|---|
| | 2019 | 2018 |
| Nil to HK$1,500,000 | 4 | – |
| HK$1,500,001 to HK$2,000,000 | – | 2 |
| HK$2,000,001 to HK$2,500,000 | – | 2 |
| | 4 | 4 |

During the prior year, share options were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## 10. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and accordingly is not subject to income tax from business carried out in the Cayman Islands.

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

According to the Implementation Rules for the Law for Promoting Private Education, private schools for which the school sponsors do not require reasonable returns are eligible to enjoy the same preferential tax treatments as public schools. The preferential tax treatment policies applicable to private schools requiring reasonable returns are to be separately formulated by the relevant authorities under the State Council. Up to date of approval of these financial statements, no separate policies, regulations or rules have been promulgated by such authorities in this regard. During the year, no corporate income tax was provided on the income from the provision of formal education services by certain PRC Private Schools of the Group, which have elected to be private schools require reasonable returns. In accordance with the historical tax returns filed to the relevant tax authorities and the tax compliance confirmations obtained therefrom, these PRC Private Schools did not pay corporate income tax for the income from formal educational services and has enjoyed the preferential tax treatment since their establishment. As a result, no income tax expense was recognised for the income from the provision of formal educational services during the year. The non-academic education services provided by these schools are subject to corporate income tax at a rate of 25%.

WFOE was established in Horgos, Xinjiang, the PRC and is exempted from income tax for the first five years since 2018 in accordance with the preferential tax rules. Therefore, WFOE will be subject to the PRC corporate income tax rate of 25% after 2023.

All of the Group's non-school subsidiaries established in the PRC are subject to the PRC corporate income tax rate of 25% during the year, except WFOE mentioned above.

PRC land appreciation tax ("LAT") is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures. The Group has estimated and included in taxation a provision for LAT according to the requirements set forth in the relevant PRC laws and regulations. The LAT provision is subject to final review and approval by the local tax bureau.

## 10. INCOME TAX *(Continued)*

Corporate income tax of the Group has been provided at the applicable tax rates on the estimated taxable profits arising in Mainland China during the year. The major components of income tax expense of the Group are as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Current – Mainland China | | |
| PRC corporate income tax for the year | 66,097 | 1,010 |
| PRC LAT for the year | 5,280 | – |
| Overprovision of PRC LAT in prior year | – | (8,328) |
| Deferred (note 26) | (5,669) | (523) |
| Total tax charged/(credited) for the year | 65,708 | (7,841) |

Tax payable/(prepaid PRC LAT) in the consolidated statement of financial position represents:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Payable for PRC corporate income tax | 65,203 | 34,053 |
| Prepaid PRC land appreciation tax | (3,048) | (8,328) |
| | 62,155 | 25,725 |

## 10. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rates in Mainland China and Hong Kong to the tax expense at the effective tax rate is as follows:

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| Profit before tax | | 555,739 | 159,496 |
| Add: Loss/(profit) from by the Company | (a) | (72,875) | 108,296 |
| Profit before tax by the Group other than the Company | | 482,864 | 267,792 |
| Tax benefit at the respective statutory tax rates: | | | |
| – PRC subsidiaries, at 25% | | 120,972 | 66,986 |
| – Hong Kong subsidiary, at 16.5% | | (169) | (24) |
| Lower tax rate for specific provinces or enacted by local authorities | (b) | (31,190) | (1,467) |
| Profits arising from schools not subject to tax | | (41,629) | (59,322) |
| Profits and losses attributable to a joint venture | | (1,294) | – |
| Adjustments in respect of current tax of previous years | | 30,530 | – |
| Tax losses utilized from previous years | | (12,351) | (8,074) |
| Provision/(overprovision) of PRC LAT | | 5,280 | (8,328) |
| Tax effect on PRC LAT | | (1,320) | 2,082 |
| Others | | (3,121) | 306 |
| Tax charge/(credited) at the Group's effective rate | | 65,708 | (7,841) |

Notes:

(a) Profit generated the by the Company during the year ended 31 December 2019 mainly consisted of interest income and foreign exchange gains, which are not subject to tax pursuant to the rules and regulations of the Cayman Island.

(b) According to the Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies, certain PRC Private Schools of the Group that are located in Sichuan Province and engaged in encouraged business of higher vocational education services are entitled to a preferential CIT rate of 15% in 2019.

## 11. DIVIDENDS

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Proposed final – HK$2.5 cents (2018: HK$1.8 cents) per ordinary share | **150,348** | 105,495 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit attributable to ordinary equity holders of the Company for the year and the number of 6,666,668,000 ordinary shares in issue during the year ended 31 December 2019 (2018: weighted average number of 5,672,990,228 ordinary shares in issue during the year ended 31 December 2018, as adjusted to reflect the capitalisation issue).

The calculation of the diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company as used in the basic earnings per share calculation, adjusted to reflect the interest on the composite instrument and fair value changes on the conversion right of the convertible bond. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation: | 489,872 | 167,916 |
| Add: interest on convertible bond | – | 7,632 |
| Less: fair value gains of the conversion right of the convertible bond | – | (13,271) |
| Profit attributable to ordinary equity holders of the Company before interest on convertible bond and fair value gains on the conversion right of the convertible bond used in the diluted earnings per share calculation | 489,872 | 162,277 |

| | Number of shares 2019 | 2018 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 6,666,668,000 | 5,672,990,228 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | 91,348,060 | 63,428,417 |
| A composite instrument | – | 1,256,895 |
| | 6,758,016,060 | 5,737,675,540 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Devices and equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **31 December 2019** | | | | | | |
| At 1 January 2019: | | | | | | |
| Cost | 3,009,424 | 273,411 | 5,399 | 242,499 | 403,437 | 3,934,170 |
| Accumulated depreciation | (228,935) | (122,685) | (1,658) | (132,625) | – | (485,903) |
| Net carrying amount | 2,780,489 | 150,726 | 3,741 | 109,874 | 403,437 | 3,448,267 |
| At 1 January 2019, net of accumulated depreciation | 2,780,489 | 150,726 | 3,741 | 109,874 | 403,437 | 3,448,267 |
| Additions | 5,277 | 25,762 | 1,467 | 19,686 | 307,464 | 359,656 |
| Acquisition of subsidiaries (Note 30) | 756,523 | 46,129 | 2,332 | 60,842 | 69,667 | 935,493 |
| Disposals | (11,480) | (1,507) | (356) | (2,401) | – | (15,744) |
| Depreciation provided during the year | (71,772) | (43,688) | (3,766) | (44,474) | – | (163,700) |
| Transfers | 458,853 | – | – | – | (458,853) | – |
| At 31 December 2019, net of accumulated depreciation | 3,917,890 | 177,422 | 3,418 | 143,527 | 321,715 | 4,563,972 |
| At 31 December 2019: | | | | | | |
| Cost | 4,218,451 | 343,178 | 8,007 | 316,518 | 321,715 | 5,207,869 |
| Accumulated depreciation | (300,561) | (165,756) | (4,589) | (172,991) | – | (643,897) |
| Net carrying amount | 3,917,890 | 177,422 | 3,418 | 143,527 | 321,715 | 4,563,972 |
| **31 December 2018** | | | | | | |
| At 1 January 2018: | | | | | | |
| Cost | 2,884,638 | 220,489 | 13,983 | 186,843 | 246,389 | 3,552,342 |
| Accumulated depreciation | (168,234) | (83,967) | (5,999) | (98,784) | – | (356,984) |
| Net carrying amount | 2,716,404 | 136,522 | 7,984 | 88,059 | 246,389 | 3,195,358 |
| At 1 January 2018, net of accumulated depreciation | 2,716,404 | 136,522 | 7,984 | 88,059 | 246,389 | 3,195,358 |
| Additions | 14,835 | 55,835 | 1,672 | 58,184 | 267,844 | 398,370 |
| Disposals | (289) | (2,434) | (5,534) | (667) | – | (8,924) |
| Depreciation provided during the year | (61,257) | (39,197) | (381) | (35,702) | – | (136,537) |
| Transfers | 110,796 | – | – | – | (110,796) | – |
| At 31 December 2018, net of accumulated depreciation | 2,780,489 | 150,726 | 3,741 | 109,874 | 403,437 | 3,448,267 |
| At 31 December 2018: | | | | | | |
| Cost | 3,009,424 | 273,411 | 5,399 | 242,499 | 403,437 | 3,934,170 |
| Accumulated depreciation | (228,935) | (122,685) | (1,658) | (132,625) | – | (485,903) |
| Net carrying amount | 2,780,489 | 150,726 | 3,741 | 109,874 | 403,437 | 3,448,267 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(a) At 31 December 2019, the Group was in the customary process of obtaining the relevant property ownership certificates for certain buildings with an aggregate net carrying amount of approximately RMB1,467,274,000 (2018: RMB1,086,833,000). The Group's buildings can only be sold, transferred or mortgaged when the relevant certificates have been obtained.

(b) Additions to construction in progress during the year included interests capitalised in respect of certain bank loans borrowed amounting to RMB2,210,000 (2018: RMB8,122,000) (note 6).

(c) At 31 December 2019, the Group's property, plant and equipment with a net carrying amount of approximately RMB390,013,000 (2018: Nil) were pledged to secure the bank loans granted to the Group (note 25(a)).

## 14. LEASES

### The Group as a lessee

The Group has lease contracts for various items of leasehold land, school campuses, dormitories and motor vehicles used in its operations. Lump sum payments were made upfront to acquire the leased land from the government with lease periods of 20 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of dormitories generally have lease terms between 11 and 12 years, while motor vehicles generally have lease terms within 2 years. Leases of school campuses generally has lease terms between 1 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

*(a) Prepaid land lease payments (before 1 January 2019)*

| | RMB'000 |
|---|---|
| Carrying amount at 1 January 2018 | 607,866 |
| Additions | 12,349 |
| Recognised in profit or loss during the year | (15,082) |
| Disposal during the year | (1,235) |
| Carrying amount at 31 December 2018 | 603,898 |
| Less: Current portion included in prepayments, deposits and other receivables (note 19) | (13,883) |
| Non-current portion at 31 December 2018 | 590,015 |

## 14. LEASES *(Continued)*

**The Group as a lessee** *(Continued)*

*(b) Right-of-use assets*

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | Prepaid land lease payments RMB'000 | Dormitories RMB'000 | Campuses RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| As at 1 January 2019 | 603,898 | 107,279 | 12,343 | 240 | 723,760 |
| Additions | 87,957 | 12,371 | – | – | 100,328 |
| Additions from acquisition of subsidiaries (note 30) | 332,032 | – | 50,462 | – | 382,494 |
| Disposals | (265) | – | – | – | (265) |
| Depreciation charge | (19,550) | (12,979) | (10,385) | (63) | (42,977) |
| As at 31 December 2019 | 1,004,072 | 106,671 | 52,420 | 177 | 1,163,340 |

At 31 December 2019, the Group's prepaid land lease payments with a net carrying amount of approximately RMB45,543,000 (2018: Nil) were pledged to secure the bank loans granted to the Group (note 25(a)).

*(c) Lease liabilities*

The carrying amount of lease liabilities and the movements during the year are as follows:

| | Lease liabilities RMB'000 |
|---|---|
| Carrying amount at 1 January 2019 | 162,595 |
| New leases | 12,371 |
| Accretion of interest recognised during the year | 10,660 |
| Payments | (25,139) |
| Carrying amount at 31 December 2019 | 160,487 |
| Analysed into: | |
| Current portion | 27,825 |
| Non-current portion | 132,662 |

The maturity analysis of lease liabilities (2018: N/A) is disclosed in note 37 to the financial statements.

## 14. LEASES *(Continued)*

**The Group as a lessee** *(Continued)*

*(d)* The amounts recognised in profit or loss in relation to leases are as follows:

| | 2019<br>RMB'000 |
|---|---|
| Interest on lease liabilities | 10,660 |
| Depreciation charge of right-of-use assets | 42,977 |
| Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019 (included in cost of sales and administrative expenses) | 1,205 |
| Expense relating to leases of low-value assets (included in administrative expenses) | 24 |
| Total amount recognised in profit or loss | 54,866 |

*(e)* The total cash outflow for leases is disclosed in note 34(c) to the financial statements.

The Group leased certain schools' spaces and buildings under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB17,517,000 (2018: RMB17,561,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the Group undiscounted lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Within one year | 26,201 | 13,187 |
| After one year but within two years | 10,211 | 2,009 |
| After two years but within three years | 2,769 | 396 |
| After three years but within four years | 1,857 | 280 |
| After four years but within five years | 1,743 | 280 |
| After five years | 7,058 | 187 |
| | 49,839 | 16,339 |

## 15. GOODWILL

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Cost and net carrying amount at 1 January | 481,143 | 481,143 |
| Acquisition of subsidiaries (note 30) | 114,677 | – |
| Cost and net carrying amount at 31 December | 595,820 | 481,143 |

### Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units (CGU) for impairment testing:

- Tianyi College cash-generating unit ("Tianyi College CGU");
- Jinci College of Shanxi Medical University cash-generating unit ("Jinci College CGU");
- Sichuan TOP IT Vocational Institute cash-generating unit ("TOP Institute CGU");
- Yinchuan University of Energy cash-generating unit ("Yinchuan Energy CGU"); and
- Suzhou Top Institute cash-generating unit ("Suzhou Top CGU").

The carrying amount of goodwill allocated to each CGU at the end of the reporting period is as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Tianyi College CGU | 36,865 | 36,865 |
| Jinci College CGU | 16,311 | 16,311 |
| TOP Institute CGU | 427,967 | 427,967 |
| Yinchuan Energy CGU | 10,795 | – |
| Suzhou Top CGU | 103,882 | – |
| | 595,820 | 481,143 |

The recoverable amounts each of the above CGUs had been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by the Directors. The growth rate used to extrapolate the cash flows of the above CGUs beyond the five-year period is 3%.

## 15. GOODWILL *(Continued)*

**Impairment testing of goodwill** *(Continued)*

Assumptions were used in the value in use calculation of each of the above CGUs for 31 December 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

*Budgeted revenue* – The budgeted revenue is based on the historical data and management's expectation on the future market.

*Budgeted EBIT* – The basis used to determine the value assigned to the budgeted EBIT is the average EBIT achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

*Long term growth rate* – The long term growth rate of 3% is based on the historical data and management's expectation on the future market.

*Pre-tax discount rate* – The pre-tax discount rate reflects the risks relating to the relevant CGUs, and is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain public listed companies conducting business in the PRC education industry. The pre-tax discount rate used in the value in use calculation for each CGU is as follows:

| | **2019** | 2018 |
|---|---|---|
| Tianyi College CGU | **16%** | 14% |
| Jinci College CGU | **14%** | 14% |
| TOP Institute CGU | **16%** | 14% |
| Yinchuan Energy CGU | **14%** | N/A |
| Suzhou Top CGU | **14%** | N/A |

The values assigned to the key assumptions on the market development of the cash-generating unit and discount rate are consistent with external information sources.

The major key assumption on which management has based its determination of goodwill's recoverable amount is the budgeted tuition and boarding fees, which are dependent on the number of students and the unit price of tuition and boarding fees.

The Directors have estimated the reasonably possible changes in those factors and acknowledged that, even if the most unfavourable possible values were assigned to those factors, the recoverable amount of the respective CGU then calculated, after incorporating any consequential effects of such assignments on the other variables used to measure the recoverable amount of the respective CGU, would still exceed their respective carrying amount.

## 16. OTHER INTANGIBLE ASSETS

| | Software RMB'000 | Cooperation arrangements to operate independent colleges RMB'000 | Licence to operate an under-graduate institution RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2019** | | | | |
| Cost at 1 January 2019, net of accumulated amortisation | 34,584 | 99,012 | – | 133,596 |
| Additions | 3,340 | – | – | 3,340 |
| Acquisition of subsidiaries (note 30) | 4,273 | – | 88,622 | 92,895 |
| Amortisation provided during the year | (5,760) | (4,258) | (837) | (10,855) |
| At 31 December 2019 | 36,437 | 94,754 | 87,785 | 218,976 |
| At 31 December 2019 | | | | |
| Cost | 53,818 | 117,438 | 88,622 | 259,878 |
| Accumulated amortisation | (17,381) | (22,684) | (837) | (40,902) |
| Net carrying amount | 36,437 | 94,754 | 87,785 | 218,976 |
| **31 December 2018** | | | | |
| Cost at 1 January 2018, net of accumulated amortisation | 15,436 | 103,264 | – | 118,700 |
| Additions | 23,947 | – | – | 23,947 |
| Amortisation provided during the year | (4,799) | (4,252) | – | (9,051) |
| At 31 December 2018 | 34,584 | 99,012 | – | 133,596 |
| At 31 December 2018 | | | | |
| Cost | 46,205 | 117,438 | – | 163,643 |
| Accumulated amortisation | (11,621) | (18,426) | – | (30,047) |
| Net carrying amount | 34,584 | 99,012 | – | 133,596 |

## 16. OTHER INTANGIBLE ASSETS *(Continued)*

The net carrying amount of the cooperation arrangements to operate independent colleges and the original contractual periods to operate such colleges were as follows:

| | 2019 RMB'000 | 2018 RMB'000 | Original contractual period |
|---|---|---|---|
| Jinci College of Shanxi Medical University | **12,782** | 13,659 | 20 years |
| Business College of Guizhou University of Finance and Economics | **81,972** | 85,353 | 30 years |
| | **94,754** | 99,012 | |

The licence to operate an undergraduate institution is amortised on the straight-line basis over its estimated useful life of 35 years by considering the expected usage of the asset and legal or similar limits on the use of the asset.

## 17. INVESTMENT IN A JOINT VENTURE

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Share of net assets | **196,242** | – |

The Group's loan to the joint venture is disclosed in note 33(c) to the financial statements.

## 17. INVESTMENT IN A JOINT VENTURE *(Continued)*

The Group's joint venture is held by Guizhou Jiexing Huilv Air Service Consultant Services Limited ("Jiexing Huilv"), an indirect subsidiary of the Company. Particulars of the joint venture are as follows:

| Name | Registered capital | Place of registration and business | Percentage of Ownership interest | Percentage of Voting power | Percentage of Profit sharing | Principal activities |
|---|---|---|---|---|---|---|
| College of Science and Technology of Guizhou University | RMB50,000,000 | The PRC/ Mainland China | 100% | * | 100% | Provision of higher education services |

* College of Science and Technology of Guizhou University is accounted for as a joint venture even though the Group owned 100% ownership interest and 100% profit sharing right in College of Science and Technology of Guizhou University. This is because in accordance with the articles of association of College of Science and Technology of Guizhou University, all decisions about the relevant activities require the approval by a two-third majority of the members of the board of directors of College of Science and Technology of Guizhou University. In accordance with the arrangement between Jiexing Huilv and Guizhou University, the board of directors of College of Science and Technology of Guizhou University is consisted of seven directors, among whom four directors shall be appointed by Guizhou University while only three directors were appointed by Jiexing Huilv. Therefore, the Group is able to exercise joint control over College of Science and Technology of Guizhou University which the decisions about the relevant activities require the unanimous consent of the Group and Guizhou University.

The following table illustrates the summarised financial information in respect of College of Science and Technology of Guizhou University adjusted for any differences in accounting policies and reconciled to the carrying amount in the financial statements:

| | 2019<br>RMB'000 |
|---|---|
| Cash and cash equivalents | 3,094 |
| Other current assets | 4,576 |
| Non-current assets | 614,247 |
| Contract liabilities | (69,089) |
| Other-current liabilities | (81,476) |
| Non-current liabilities | (275,110) |
| Net assets | 196,242 |
| Reconciliation to the Group's share of net assets of the joint venture: | |
| Proportion of the Group's ownership | 100% |
| Carrying amount of the investment | 196,242 |

## 17. INVESTMENT IN A JOINT VENTURE *(Continued)*

| | Period from 10 July 2019 (date of acquisition) to 31 December 2019 RMB'000 |
|---|---|
| Revenue | 52,268 |
| Interest income | 22 |
| Depreciation and amortisation | (9,923) |
| Interest expenses | (7,298) |
| Profit before tax and profit after tax for the period | 5,177 |

## 18. TRADE RECEIVABLES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Tuition and boarding fee receivables | 3,714 | – |
| Impairment | – | – |
| | 3,714 | – |

Trade receivables as at the end of the reporting period which are based on the transaction date were not individually nor collectively considered to be impaired. None of the above trade receivables is either past due or impaired. The trade receivables have no recent history of default.

No expected credit losses were provided as it is assessed that the overall expected credit loss rate for the above financial assets measured at amortised cost is minimal.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Within 1 month | 1,068 | – |
| Over 3 months | 2,646 | – |
| | 3,714 | – |

## 18. TRADE RECEIVABLES *(Continued)*

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **Current portion:** | | | |
| Prepayments for management fees | 7(i) | **72,734** | 18,626 |
| Prepaid expenses | | **12,248** | 12,301 |
| Deposits | | **13,225** | 10,278 |
| Refundable deposit related to proposed equity acquisitions | | **70,011** | 30,000 |
| Rental receivables | | **–** | 2,500 |
| Other receivables | | **16,395** | 5,660 |
| Staff advances | | **1,775** | 4,537 |
| Prepaid land lease payments to be amortised within one year | 14(a) | **–** | 13,883 |
| Loans to third parties | (a) | **468,550** | – |
| Interest receivable from time deposits | | **7,000** | 5,980 |
| Interest receivables from a third party | (a) | **58,849** | 24,964 |
| | | **720,787** | 128,729 |
| **Non-current portion:** | | | |
| Loans to a third party | (a) | **–** | 447,670 |
| Prepayments for property, plant and equipment | | **3,375** | 8,555 |
| Prepayments for intangible assets | | **1,000** | – |
| Prepayments for land lease payments | | **220,440** | 10,000 |
| | | **224,815** | 466,225 |
| | | **945,602** | 594,954 |

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Loans to third parties represent:

(i) loans of RMB446,550,000 to Chengdu Wuhou Guixi Property Development Company Limited ("Guixi Property"), a company controlled by the previous ultimate shareholder of Sichuan TOP IT Vocational Institute, which bear interest at a fixed rate of 7.5% per annum and will become mature within two years from the date when the loans were granted. The interest is paid half-yearly, and the principal of the loans will be repaid in a lump sum as the loans become mature. The loans are secured by the pledge of buildings and certain car parks (the "Collateral") belonged to Guixi Property.

As at 31 December 2019, interest receivables with the amount of RMB58,849,000 arising from the loans have been partially past due. The Group does not recognise any ECLs as the fair value of the Collateral held by the Group over the principal loans and the interest receivables of approximately RMB1,064,226,000 is significantly higher than the aggregate amounts of the loans and the interest receivables. The fair value of the Collateral is determined by an independent qualified valuer.

(ii) the interest-free loan of RMB22,000,000 to Luohe City Yancheng District Songjiang Investment Development Co., Ltd. for acquiring land use rights in Luohe City, with maturity due in June 2020 which is guaranteed by the People's Government of Wucheng District, Luohe City, Henan Province.

The remaining receivables are interest-free and are not secured with collateral. None of the financial assets included in the above balances related to receivables is past due except the interest receivables from a third party mentioned in note (a) (i) above.

The above financial assets related to receivables have no recent history of default.

## 20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Notes | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| Structured deposits | (i) | 1,002,967 | – |
| Wealth management products | (ii) | 9,310 | – |
| | | 1,012,277 | – |

(i) The structured deposits were issued by licensed banks in Mainland China. The structured deposits are with expected rates of return (not guaranteed) at floating rates ranging from 1.00% to 3.16%, linked to 3M-LIBOR (2018: N/A). If the structured deposits are redeemable by the Group before 18 February 2020, the Group will be charged a penalty at the rate of 2.5% based on the principal amount.

(ii) The wealth management products were issued by licensed banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The products have maturity within 60 days and coupon rates are expected at 2.75% per annum. None of the wealth management products are past due.

All the financial assets at fair value through profit or loss are denominated in RMB.

## 21. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCE

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Cash and bank balances | 1,553,220 | 2,588,905 |
| Time deposits with original maturity of over three months | 295,986 | 450,000 |
| | 1,849,206 | 3,038,905 |
| *Less: Restricted bank balance in an escrow account (note (i))* | | |
| Current | (50,000) | – |
| Non-current | (108,787) | – |
| Cash and cash equivalents | 1,690,419 | 3,038,905 |

Note:

(i) The amount represents cash received from the Finance Bureau of Zhangshu City, Jiangxi Province ("江西省樟樹市財政局") and placed into an escrow account for the construction of a new campus and procurement of school equipment in Jiangxi Province. Among the restricted bank balance, RMB50,000,000 will be released from the escrow account in 10 days after commencing the construction of the new campus in 2020, and the remaining will be released when the construction condition is fulfilled at a later stage which is expected to be after 2020.

The cash and bank balances were denominated in the following currencies:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| RMB | 1,589,138 | 1,473,525 |
| HK$ | 437 | 1,976 |
| US$ | 259,631 | 1,563,404 |
| Cash and bank balances | 1,849,206 | 3,038,905 |

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The time deposits are made for six months to one year and earn interest at the deposit rates ranging from 2.02% to 3.18% per annum (2018: 4.0%). The bank balances and restricted bank balance are deposited with creditworthy banks with no recent history of default.

## 22. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Within 1 month | 26,676 | – |
| 1 to 2 months | 2,433 | – |
| 2 to 3 months | 1,440 | – |
| Over 3 months | 3,061 | – |
| | 33,610 | – |

The trade payables are non-interest-bearing and are normally settled on one to ten months' terms.

## 23. OTHER PAYABLES AND ACCRUALS

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| **Current portion:** | | | |
| Payables for purchase of property, plant and equipment | | 441,906 | 144,797 |
| Payables for the acquisition of equity interests | (i) | 63,000 | – |
| Miscellaneous advances received from students | (ii) | 98,956 | 92,445 |
| Accrued bonuses and other employee benefits | | 80,548 | 55,244 |
| Rental payable | (iii) | 1,844 | 43,628 |
| Government scholarship | | 23,575 | 13,976 |
| Payables for purchase of teaching materials and operating expenditure | | 55,540 | 27,330 |
| Payables for management fees | 7(i) | 2,454 | 20,419 |
| Construction deposits | | 36,325 | 30,538 |
| Other taxes payable | | 26,315 | 26,246 |
| Other payables and accrued expenses | | 236,570 | 107,004 |
| Construction loan from Mianzhu Education Bureau | (iv) | 75,832 | 75,832 |
| | | 1,142,865 | 637,459 |
| **Non-current portion:** | | | |
| Payables for the acquisition of equity interests | (i) | 334,768 | – |
| Other payables | (v) | 9,117 | 6,416 |
| | | 343,885 | 6,416 |
| | | 1,486,750 | 643,875 |

## 23. OTHER PAYABLES AND ACCRUALS *(Continued)*

Notes:

(i) The balance at 31 December 2019 represented the payables arising from the acquisition of equity interests as described in notes 30 and 31 to the financial statements.

(ii) The advances received from students represented expenses relating to textbooks, military training, medical examination, insurance and etc. collected from students which will be paid out on behalf of students.

(iii) As a result of the initial application of IFRS 16, accrued lease payments of RMB42,733,000 previously included in "Other payables and accruals" were adjusted to the right-of-use assets recognised at 1 January 2019 (refer to note 2.2 to the financial statements for further details). As at 31 December 2019, the rental payable represented lease payables for short-term leases.

(iv) Tianyi College obtained an interest-free and non-repayable construction loan from the Mianzhu Education Bureau in 2015.

(v) The non-current other payables mainly represent the liabilities to Nanchong No.19 Middle School for the purchase of fixed assets and are measured at amortised cost.

Except for payables arising from the acquisition of a 100% equity interest in Shanghai Pumeng Zhichuan Educational Technology Co., Ltd. ("Shanghai Pumeng") amounting to RMB80,000,000 (note 30(a)), all other payables and accruals are unsecured and non-interest-bearing.

## 24. DEFERRED INCOME

| | Notes | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| *Government grants related to assets* | | | |
| At 1 January | | 667,490 | 637,913 |
| Government grants received | | 420,106 | 38,239 |
| Acquisition of subsidiaries | 30 | 6,056 | – |
| Released to profit or loss | | (10,250) | (8,662) |
| At 31 December | | 1,083,402 | 667,490 |
| Current | | 10,729 | 9,407 |
| Non-current | | 1,072,673 | 658,083 |
| | | 1,083,402 | 667,490 |
| *Government grants related to expense items* | | | |
| At 1 January | | – | – |
| Government grants received | | 3,484 | – |
| Acquisition of subsidiaries | 30 | 23,590 | – |
| Released to profit or loss | | (5,258) | – |
| At 31 December – Current | | 21,816 | – |

Deferred income related to assets mainly represents the government grants received for subsidies relating to the construction of certain buildings. These grants related to assets are released to profit or loss as other income over the expected useful lives of the relevant assets.

Deferred income related to expense items is government grants received for the purpose of subsidising teaching related operating costs incurred during to the provision of education services. Upon completion of the operating activities, the grants would be released to profit or loss as other income on a systematic basis over the periods that the costs, which they are intended to compensate, are expensed.

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | RMB'000 | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans – secured | 5.66-8.55 | 2020 | 666,065 | 6.00 | 2019 | 300,000 |
| Other borrowings – secured | | | 8,000 | | | |
| Current portion of | | | | | | |
| – long term bank loans – secured | 4.75-7.06 | 2020 | 132,142 | 4.75-7.06 | 2019 | 91,509 |
| – other borrowings – secured | 7.00-7.50 | 2020 | 197,086 | 7.00-7.50 | 2019 | 135,171 |
| | | | 1,003,293 | | | 526,680 |
| **Non-current** | | | | | | |
| Bank loans – secured | 4.75-7.06 | 2021-2023 | 1,034,950 | 4.75-7.06 | 2020-2023 | 830,000 |
| Other borrowings – secured | 7.00-7.50 | 2021-2023 | 558,649 | 7.00-7.50 | 2020-2023 | 775,052 |
| | | | 1,593,599 | | | 1,605,052 |
| | | | 2,596,892 | | | 2,131,732 |

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable | | |
| Within one year | **798,207** | 391,509 |
| In the second year | **820,000** | 110,000 |
| In the third to fifth years, inclusive | **214,950** | 720,000 |
| | **1,833,157** | 1,221,509 |
| Other borrowings repayable: | | |
| Within one year | **205,086** | 135,171 |
| In the second year | **179,394** | 211,129 |
| In the third to fifth years, inclusive | **379,255** | 563,923 |
| | **763,735** | 910,223 |
| | **2,596,892** | 2,131,732 |

Notes:

All the Group's bank and other borrowings are denominated in RMB.

The Group's bank loans and other borrowings are secured by:

(a) Mortgages over the following assets:

(i) Certain of the Group's non-current assets are pledged for banks loans of RMB157,500,000 as at 31 December 2019 (as at 31 December 2018: Nil):

| | 2019<br>RMB'000 |
|---|---|
| *Net book amount of:* | |
| Property, plant and equipment (note 13(c)) | **390,013** |
| Prepaid land lease payments (note 14(b)) | **45,543** |
| | **435,556** |

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

(a) Mortgages over the following assets: *(Continued)*

(ii) Buildings and car parks of the third parties:

Guixi Property's buildings and car parks with the fair value of RMB845,142,000 were pledged for the bank loans of the Group amounting to RMB250,000,000 as at 31 December 2019 (as at 31 December 2018: RMB300,000,000).

The building in construction owned by Ningxia Baota Petrochemical Technology Industry Development Co., Ltd. ("Baota Petrochemical", 寧夏寶塔石化科技實業發展有限公司) and two prepaid land lease payments owed by Baota Petrochemical and Ningxia Baota United Chemical Co., Ltd (寧夏寶塔聯合化工有限公司) were pledged for the bank loans of the Group amounting to RMB64,995,000 as at 31 December 2019 (2018: Nil).

(b) Pledges of equity interests in the following subsidiaries to secure the bank loans granted to the Group:

(i) 100% of the equity interest in Sichuan Yonghe Education Investment Limited has been pledged for bank loans of RMB300,000,000 as at 31 December 2019 (2018: RMB300,000,000);

(ii) 100% of the equity interest in Top Education has been pledged for the bank loans of RMB524,000,000 as at 31 December 2019 (2018: RMB574,000,000);

(iii) 100% of the equity interest in Sichuan Guojian Investment Limited, the guarantee granted by Hope Education, and the rights over tuition fees of Southwest Jiaotong University Hope College have been provided or pledged to China National Investment and Guaranty Corporation to counter guarantee the corporate guarantee provided by China National Investment and Guaranty Corporation in relation to the Group's asset-backed-securities borrowings of RMB302,000,000 as at 31 December 2019 (2018: RMB336,223,000).

(iv) 100% of the equity interest in Taiyuan Xudong Technology Development Co., Ltd. has been pledged for bank loans of RMB90,000,000 as at 31 December 2019 (2018: Nil); and

(v) 100% of the equity interest in Shanghai Shurui Investment Consulting Co., Ltd. has been pledged for bank loans of RMB250,000,000 as at 31 December 2019 (2018: Nil).

(c) The Group's bank loans of RMB8,000,000 as at 31 December 2019 (2018: Nil) are guaranteed by a third party. At the same time, Yinchuan University of Energy has given corporate guarantee to the third party to counter guarantee the corporate guarantee over the Group's bank loans.

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes: *(Continued)*

(d) The rights over tuition or boarding fees of the following schools:

| | Loan amount | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Tianyi College | **115,817** | 154,349 |
| Tianyi College, Sichuan Hope Automotive Vocational College, Business College of Guizhou University of Finance and Economics, Sichuan Vocational College of Culture & Communication | **300,000** | 300,000 |
| Southwest Jiaotong University Hope College | **231,649** | 336,223 |
| Sichuan TOP IT Vocational Institute | **524,000** | 574,000 |
| Guizhou Vocational Institute of Technology | **100,000** | 100,000 |
| Jinci College of Shanxi Medical University | **249,040** | 167,160 |
| Yinchuan University of Energy | **17,500** | – |
| | **1,538,006** | 1,631,732 |

In addition, certain of the Group's bank and other borrowings are guaranteed by the following related parties:

| | Loan amount | |
|---|---|---|
| | **2019** | 2018 |
| | **RMB'000** | RMB'000 |
| Tequ Education and Mr. Wang Huiwu | **50,000** | 300,000 |
| Mr. Wang Huiwu | **300,000** | 100,000 |
| | **350,000** | 400,000 |

## 26. DEFERRED TAX

### Deferred tax assets

At 31 December 2019, the Group recognised deferred tax assets amounting to RMB1,404,000 as certain accrued interest expenses were expected to be deductible for corporate income tax purpose when they were paid.

### Deferred tax liabilities

The deferred tax liabilities represented the taxable temporary differences arising from fair value adjustments from the acquisition of subsidiaries and the movements in deferred tax liabilities during the year are as follows:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| At 1 January | 10,154 | 10,677 |
| Deferred tax credited to profit or loss during the year | (4,265) | (523) |
| At 31 December | 5,889 | 10,154 |

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, the Group's fund will be retained in Mainland China for the expansion of the Group's operations, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. At 31 December 2019, the aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB1,520,617,000 (2018: RMB1,099,591,000).

At 31 December 2019, the Group has unused tax losses arising in Mainland China from PRC entities subject to income tax of RMB35,682,000 (2018: RMB18,983,000), which will expire in one to five years for offsetting against future profits. Deferred tax assets have been not recognised in respect of these tax losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilized.

## 27. SHARE CAPITAL

| | 2019<br>US$ | 2018<br>US$ |
|---|---|---|
| Authorised: | | |
| 10,000,000,000 shares of US$0.00001 each (2018: 10,000,000,000 shares of US$0.00001 each) | **100,000** | 100,000 |
| **Issued and fully paid:** | | |
| 6,666,668,000 ordinary shares (31 December 2018: 6,666,668,000 ordinary share) of US$0.00001 each | **66,667** | 66,667 |
| Equivalent to approximately | **RMB454,070** | RMB454,070 |

## 28. SHARE OPTION SCHEME

On 18 March 2018, the Company adopted a share option scheme (the "2018 Pre-IPO Share Option Scheme") for the purpose of providing incentives to senior management, mid-level employee and staff who contribute to the success of the Group. The 2018 Pre-IPO Share Option Scheme became effective on 18 March 2018. The 2018 Pre-IPO Share Option Scheme expired on 3 August 2018, the date on which the shares of the Company first commenced trading on the Stock Exchange, after which period no further Pre-IPO Share Options will be granted but the provisions of the 2018 Pre-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Pre-IPO Share Options which are granted during the life of the scheme or otherwise as may be required in accordance with the provisions of the 2018 Pre-IPO Share Option Scheme.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 28. SHARE OPTION SCHEME *(Continued)*

### (i) Movements in share options

The following share options were outstanding under the 2018 Pre-IPO Share Option Scheme during the year:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Weighted average exercise price RMB | Number of options | Weighted average exercise price RMB | Number of options |
| At 1 January | 0.99 | 451,951,661 | – | – |
| Granted during the year | – | – | 0.99 | 464,723,519 |
| Forfeited during the year | 0.99 | (5,529,207) | 0.99 | (12,771,858) |
| At 31 December | 0.99 | 446,422,454 | 0.99 | 451,951,661 |

There are in total three tranches of share options under the 2018 Pre-IPO Share Option Scheme, namely tranche A ("Tranche A Options"), tranche B ("Tranche B Options") and tranche C ("Tranche C Options"). No share options were exercised during the years ended 31 December 2019 and 2018.

## 28. SHARE OPTION SCHEME *(Continued)*

### (ii) Outstanding share options

The following table discloses the details of share options outstanding at the end of the year:

| | Number of share options | | Exercise price per share | Fair value per share | Vesting period/ exercise period of share options |
|---|---|---|---|---|---|
| | **2019** | 2018 | RMB | RMB | Notes |
| Tranche A Options | **3,383,731** | 3,383,731 | 0.5911 | 0.4427 | (a) |
| Tranche B Options – 1 | **254,810,427** | 255,937,471 | 0.9311 | 0.3542 | (a) |
| Tranche B Options – 2 | **57,569,575** | 61,865,727 | 0.9311 | 0.2377 | (b) |
| Tranche C Options – 1 | **113,249,883** | 113,249,883 | 1.1311 | 0.3133 | (a) |
| Tranche C Options – 2 | **17,408,838** | 17,514,849 | 1.1311 | 0.1840 | (b) |
| | **446,422,454** | 451,951,661 | | | |

Notes:

(a) Tranche A Options, Tranche B Options – 1 and Tranche C Options – 1 are exercisable on 30 January 2019 and will expire on 18 March 2038.

(b) Tranche B Options – 2 and Tranche C Options – 2 will vest over the period from the grant date to 18 months after 3 August 2018. The exercise period of Tranche B Options – 2 and Tranche C Options – 2 commences after a vesting period and ends 6 months later when Tranche B Options – 2 and Tranche C Options – 2 vest.

## 28. SHARE OPTION SCHEME *(Continued)*

### (iii) Fair value of the share options

The fair value of the share options under the 2018 Pre-IPO Share Option Scheme was RMB149,983,000 (RMB0.1840 to RMB0.4427 each), of which the Group recognised a share option expense of RMB20,528,000 (2018: RMB122,345,000) after netting off fair value reversed due to forfeited options for the year.

The fair value of equity-settled share options was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | Tranche A Options | Tranche B Options | Tranche C Options |
|---|---|---|---|
| Dividend yield (%) | 0.00% | 0.00% | 0.00% |
| Expected volatility (%) | 50% | 50% | 50% |
| Risk-free interest rate (%) | 1.75% | 1.41-1.75% | 1.41-1.75% |
| Forfeiture rate | 2.36% | 2.36% | 2.36% |

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At 31 December 2019, the Company had 446,422,454 share options outstanding under the 2018 Pre-IPO Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 446,422,454 additional ordinary shares of the Company and additional share capital of US$4,464 (equivalent to approximately RMB31,142) and share premium of RMB440,614,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 441,422,454 share options outstanding under the 2018 Pre-IPO Share Option Scheme, which represented approximately 6.6% of the Company's shares in issue as at that date.

## 29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 128 of the financial statements.

**Share premium**

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as a dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time when the proposed dividend is to be paid.

*Capital reserve*

The capital reserve of the Group at 31 December 2019 represents the capital contributions from the then equity holders of the Group's subsidiaries, after elimination of investments in subsidiaries.

Movements in capital reserve account during the year ended 31 December 2019 consisted of: (a) the deemed contribution from the equity holders of the Company of RMB48,042,000, offset by (b) the difference arising from the acquisition of non-controlling shareholder of RMB48,000,000. Further details are given in note 31 to the financial statements.

*Statutory surplus reserves*

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

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

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

## 30. BUSINESS COMBINATIONS

(a) On 23 August 2019, the Group acquired a 100% equity interest in each of Shanghai Pumeng and Kunshan Xinwei Education Investment & Development Co., Ltd. ("Kunshan Xinwei"), and a 100% sponsor interest in each of Suzhou Top Institute and Kunshan Technical School (collectively the "Shanghai Pumeng Group"), from independent third parties for a total consideration of RMB375,745,000. After the completion of such acquisition, they became the indirectly wholly-owned subsidiaries of the Company. The acquisition of Shanghai Pumeng Group was part of the Group's business strategy to further expand the Group's market share of higher education services in Eastern China.

The principal activities of these newly acquired schools are disclosed in note 1 to the financial statements. Shanghai Pumeng and Kunshan Xinwei are principally engaged in investment holding.

The total consideration was in the form of cash, with RMB295,745,000 paid on 23 August 2019 and the remaining consideration will be paid in two separate instalments. The first and second instalments of RMB40,000,000 each instalment will be due for payment on 23 August 2020 and 23 August 2021, respectively, upon fulfilment of certain conditions and bear interest at 6% per annum. Out of the second instalment, payable of RMB10,000,000 is contingent on the success registration of change of school sponsor, which is the legal title indicating interests in an education institute, registered at Department of Civil Affairs.

(b) On 2 September 2019, the Group acquired a 100% equity interest in Hebi Automotive, which is engaged in the provision of higher education services. The purchase consideration was RMB5,000,000.

Hebi Automotive was acquired to facilitate the Group to expand its market share of higher education services in China.

(c) On 12 September 2019, the Group acquired 100% sponsor rights in each of Yinchuan University of Energy, Vocational School, Training Center, Technical School, and a 100% equity interest in each of Car Driving Training School of Yinchuan University Education Group Co., Ltd. ("Driving Training"), Auto Repair Factory of Yinchuan University Education Group Co., Ltd. ("Auto Repair Factory") (collectively "Yinchuan Group"), from independent third parties (the "Yinchuan Group Vendors"). The acquisition of Yinchuan Group will further expand the Group's school network and coverage, increase the total number of students of the Group, improve profitability and will form strong synergy with other schools of the Group.

The principal activities of these newly acquired schools are disclosed in note 1 to the financial statements. Driving Training and Auto Repair Factory were principally engaged in car driving training and motor vehicle repairment, respectively. Both Driving Training and Auto Repair Factory were disposed of by the Group to an independent third party, resulting in the recognition of losses on disposal of subsidiaries of RMB2,011,000.

## 30. BUSINESS COMBINATIONS *(Continued)*

(c) *(Continued)*

The initial purchase consideration for the acquisition of Yinchuan Group is RMB550,000,000, which shall be subject to the following adjustments:

(i) Upon completion of the acquisition, the Group will provide financing support to Yinchuan Group to repay liabilities of RMB400,000,000 (the "Loan"). The Loan will be determined based on the amount audited by an auditor jointly appointed by the Group and the Vendors. If the Loan exceeds RMB400,000,000, the consideration will be adjusted downward based on the excess amount (the "Loan Excess"). If the Loan is less than RMB400,000,000, the consideration will be adjusted upward based on the shortfall (the "Loan Shortfall");

(ii) As part of the arrangement, the Group will also purchase certain buildings (the "Subject Assets") from the Vendors through a public auction involving the Subject Assets. The Group will provide financing support of RMB500,000,000 to Yinchuan Group to participate in the auction and bidding of the Subject Assets. If the transaction price is lower than RMB500,000,000 (the "Transaction Indicative Price"), the consideration will be adjusted upward based on the shortfall. If the transaction price of the subject assets is more than RMB500,000,000, the consideration will be adjusted downward based on the excess amount.

In any event, the total amount payable by the Group for the acquisition of Yinchuan Group, financing support to Yinchuan Group and payable for the purchase of the Subject Assets shall not exceed RMB1,450,000,000.

The initial purchase consideration amount recognised was RMB455,728,000 which was determined based on the discounted cash flow model using the discount rate of 6.59% and is within the Level 3 fair value measurement, after taking into account the adjustment for the Loan Excess of RMB21,638,000 based on the price adjustment mechanism as explained in (i) above and the best estimation of the transaction price of the Subject Assets of RMB500,000,000 with no material shortfall or excess as explained in (ii) above. The consideration is recognised initially at fair value and subsequently measured at amortised cost. Up to 31 December 2019, RMB165,552,000 was paid by the Group. The remaining consideration of RMB299,592,000 is expected to be paid within 10 working days after, inter alia, the completion of the business registration procedures for the change of the equity interest in Yinchuan Group and the completion of the purchase of the Subject Assets, which is expected to be in 2022.

A significant excess (shortfall) from the Transaction Indicative Price would result in a significant decrease (increase) in the fair value of the contingent consideration liability. A significant increase (decrease) in the discount rate would result in a significant decrease (increase) in the fair value of the contingent consideration.

## 30. BUSINESS COMBINATIONS *(Continued)*

The acquisitions of Shanghai Pumeng Group, Hebi Automotive and Yinchuan Group have been accounted for using the acquisition method.

**The fair values of the identifiable assets and liabilities of each acquisition as at the respective dates of acquisitions are as follows:**

| | Notes | Shanghai Pumeng Group RMB'000 | Hebi Automotive RMB'000 | Yinchuan Group RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 13 | 145,938 | 151,283 | 638,272 | 935,493 |
| Right-of-use assets | 14 | 166,085 | 44,416 | 171,993 | 382,494 |
| Other intangible assets | 16 | 52 | 279 | 92,564 | 92,895 |
| Cash and bank balances | | 11,502 | 872 | 101,474 | 113,848 |
| Trade receivables | | 16 | 228 | 290 | 534 |
| Prepayments and other receivables | | 636 | 1,948 | 6,045 | 8,629 |
| Contract liabilities | 5 | (5,072) | (1,213) | (115,895) | (122,180) |
| Accruals and other payables | | (21,634) | (154,174) | (298,380) | (474,188) |
| Due to the Group | | (24,255) | (5,327) | – | (29,582) |
| Bank loans and other borrowings | | – | – | (119,065) | (119,065) |
| Tax payables | | (1,405) | – | (8,775) | (10,180) |
| Deferred income | 24 | – | (6,056) | (23,590) | (29,646) |
| Total identifiable net assets at fair value | | 271,863 | 32,256 | 444,933 | 749,052 |

In the opinion of the directors, the fair value of trade receivables, prepayments and other receivables as at the date of the respective acquisition dates of Shanghai Pumeng Group, Hebi Automotive and Yinchuan Group amounted to RMB652,000, RMB2,176,000 and RMB6,335,000, respectively. The total contractual amounts of trade receivables, prepayments and other receivables of Shanghai Pumeng Group were RMB652,000. The total gross contractual amounts of trade receivables, prepayments and other receivables of Hebi Automotive and Yinchuan Group were RMB4,631,000 and RMB169,038,000, respectively, of which other receivables of RMB2,455,000 and RMB162,703,000, respectively are expected to be uncollectible.

## 30. BUSINESS COMBINATIONS (Continued)

**Goodwill/(gain on bargain purchase):**

| | Shanghai Pumeng Group RMB'000 | Hebi Automotive RMB'000 | Yinchuan Group RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Consideration satisfied by: | | | | |
| Cash | 295,745 | – | 165,552 | 461,297 |
| Other payables | 80,000 | 5,000 | 290,176 | 375,176 |
| Total consideration | 375,745 | 5,000 | 455,728 | 836,473 |
| Less: Net assets acquired | (271,863) | (32,256) | (444,933) | (749,052) |
| Goodwill | 103,882 | – | 10,795 | 114,677 |
| Gain on bargain purchase^ | – | (27,256) | – | (27,256) |

^ The gain on a bargain purchase of approximately RMB27,256,000 arose from the need of the vendor to dispose of the investment in a short period of time to avoid liquidation as a result of the lack of management experience in operating an education institute.

None of the goodwill recognised is expected to be deductible for income tax purposes.

**Analyses of the cash flows in respect of the above acquisitions are as follows:**

| | Shanghai Pumeng Group RMB'000 | Hebi Automotive RMB'000 | Yinchuan Group RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Cash paid during the year | (320,000) | (5,327) | (165,552) | (490,879) |
| Cash and cash equivalents acquired | 11,502 | 872 | 101,474 | 113,848 |
| Net inflow/(outflow) of cash and cash equivalents included in cash flows from investing activities | (308,498) | (4,455) | (64,078) | (377,031) |

## 30. BUSINESS COMBINATIONS (Continued)

**Contribution to the Group's revenue and consolidated profit for the year ended 31 December 2019 since the respective acquisition dates are as follows:**

| | Shanghai Pumeng Group RMB'000 | Hebi Automotive RMB'000 | Yinchuan Group RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Revenue | 27,955 | 8,890 | 69,073 | 105,918 |
| Consolidated profit | 16,082 | 97 | 34,947 | 51,126 |

**Had the combination taken place at the beginning of the year, the revenue of the Group and the total comprehensive income of the Group for the year ended 31 December 2019 would be increased by:**

| | Shanghai Pumeng Group RMB'000 | Hebi Automotive RMB'000 | Yinchuan Group RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Revenue | 78,216 | 19,133 | 174,335 | 271,684 |
| Consolidated profit | 16,117 | 455 | 37,130 | 53,702 |

## 31. ACQUISITION OF SUBSIDIARIES AND NON-CONTROLLING INTEREST

On 10 July 2019, the Group acquired a 100% equity interest in Chengdu Maysunshine Education Management Co., Ltd. ("Maysunshine"), which in turn indirectly acquired a 70% equity interest in Jiexing Huilv at a consideration of RMB70,000,000 from Tequ Education, a company controlled by the jointly controlling shareholders (note 33(b)(iii)). The principal activity of Maysunshine and Jiexing Huilv is investment holding. Jiexing Huilv held a 100% equity interest in College of Science and Technology of Guizhou University, which is accounted for as an investment in a joint venture (note 17).

The above acquisition has been accounted for as an acquisition of assets as this acquisition had no attribution of a business. The Group elects to measure the non-controlling interest at the proportionate share of the acquiree's identifiable net assets.

## 31. ACQUISITION OF SUBSIDIARIES AND NON-CONTROLLING INTEREST *(Continued)*

The identified assets and liabilities acquired by the Group in the above acquisition were as follows:

| | RMB'000 |
|---|---|
| Cash and bank balances | 1 |
| Other receivables | 949 |
| Investment in a joint venture (note) | 143,023 |
| Other payables | (43,973) |
| Non-controlling interests | (30,000) |
| Total identified net assets at fair value | 70,000 |
| Satisfied by cash | 70,000 |

An analysis of the cash flows in respect of the acquisition of the above subsidiaries is as follows:

| | RMB'000 |
|---|---|
| Cash consideration paid during the year | (70,000) |
| Cash and cash equivalents acquired | 1 |
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (69,999) |

Note:

The fair value of the identifiable net assets of the joint venture on the acquisition date was RMB191,065,000, as determined by an independent external expert. The excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment in a joint venture of RMB143,023,000 was RMB48,042,000. The excess was credited to the capital reserve as it was treated as a deemed contribution from the equity shareholders of the Company.

On 23 July 2019, the Group further acquired the remaining 30% equity interests in Jiexing Huilv at a consideration of RMB78,000,000 from an independent third party, of which RMB60,000,000 has been paid during the year ended 31 December 2019. The excess of the consideration over the carrying amount of the non-controlling interests at the acquisition date was RMB48,000,000. The excess was deducted from the capital reserve as the acquisition of the non-controlling shareholder was accounted as an equity transaction.

## 32. COMMITMENTS

(a) The Group had the following capital commitments as at the end of the year:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Contracted but not provided for: | | |
| Property, plant and equipment | 740,782 | 83,495 |

(b) Operating lease commitments as at 31 December 2018:

The Group leased certain of its dormitories, school campuses and motor vehicles under operating lease arrangements. Leases for dormitories, school campuses and motor vehicles are negotiated for terms ranging from 1 to 12 years, and 5 years, respectively. As at 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2018<br>RMB'000 |
|---|---|
| Within one year | 20,215 |
| In the second to fifth years, inclusive | 87,488 |
| After five years | 91,959 |
| Total | 199,662 |

## 33. RELATED PARTY TRANSACTIONS AND BALANCES

### (a) Name and relationship

The directors of the Company are of the opinion that the following parties/companies are related parties that had significant transactions or balances with the Group during the year.

| Related parties | Relationships |
|---|---|
| Mr. Wang Huiwu | One of the ultimate jointly controlling parties |
| Mr. Cheng Yuxin | One of the ultimate jointly controlling parties |
| Hope Education Investment | Parent of the Company |
| Sichuan Tequ Investment Group Ltd. ("Tequ Investment Group") | One of the jointly controlling shareholders |
| Tequ Education | A company controlled by the jointly controlling shareholders |
| Mianzhu May Sunshine Property Development Co., Ltd. ("Mianzhu Property") | A company controlled by Tequ Education |
| Sichuan Mayflower Precision Instrument Co., Ltd. ("Mayflower Precision Instrument") | A company controlled by Mr. Wang Huiwu |
| Ziyang Automobile Science and Technology Vocational College ("Ziyang Automobile College") | A school controlled by Tequ Education |
| College of Science and Technology of Guizhou University | Joint venture of the Group |
| Ziyang May Sunshine Property Development Co., Ltd. ("Ziyang Property") | A company controlled by Tequ Education |
| Sichuan Mayflower Wine Sales Co., Ltd ("Mayflower Wine Sales") | A company controlled by Ziyang Property |
| Chengdu Hope English Training School ("Hope English School") | A school controlled by Tequ Education |
| Sichuan Dawu Trading Co., Ltd. ("Dawu Trading") | A company controlled by a close relative of Mr. Wang Huiwu |
| Sichuan Dawu Technology Co., Ltd. ("Dawu Technology") | A company controlled by Dawu Trading |
| Sichuan Rongxing Driving School Co., Ltd. ("Rongxing Driving School") | A company controlled by Tequ Education |
| Sichuan Tianyuan Insurance Co., Ltd. ("Tianyuan Insurance") | A company controlled by Dawu Trading |
| Chengdu Mayflower Property Management Co., Ltd. ("Chengdu Mayflower Property Management") | A company controlled by a close relative of Mr. Wang Huiwu |
| Sichuan Wuyang Construction Project Company Limited ("Wuyang Construction") | A company controlled by a close relative of Mr. Wang Huiwu |
| Chengdu Mayflower Senior Technical School ("Chengdu Mayflower Technical") | A company controlled by Tequ Education |
| Sichuan TOP IT Vocational School ("TOP School") | A company controlled by Tequ Education |
| Mr. Wang Xiaoqiang | Relative of Mr. Wang Huiwu |

## 33. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (b) Transactions with related parties

*(i) Loans received from/(repayment of loans to)*

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Tequ Investment Group | | |
| Loans received from | – | 100,000 |
| Repayment of loans to | – | (100,000) |
| Interest paid | – | (685) |
| Interest expense charged by | – | 685 |
| Effective interest rate, per annum | – | 8.5% |

The above loans are unsecured and repayable on demand or within one year.

*(ii) Interest income*

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Tequ Education | – | 26,055 |
| College of Science and Technology of Guizhou University | 5,413 | 1,522 |
| | 5,413 | 27,577 |

The Group granted loans to Tequ Education and charged interest at 8.5% per annum based on the average monthly loan balances in 2018.

During the year, the Group granted an interest-bearing loan amounting to RMB275,110,000 to College of Science and Technology of Guizhou University and charged interest at 8% per annum. The interest is payable yearly and the principal of the loan will be repaid in a lump sum when the loan becomes mature in 2024.

*(iii) Guarantees provided to a related party*

During the year ended 31 December 2018, the Group provided guarantees for Chengdu Mayflower Technical's interest-bearing bank loans amounting to RMB130,000,000 with guarantee income of 2% per annum based on the principal of the bank loans guaranteed. The after-tax guarantee income was RMB2,267,000. All the guaranteed bank loans have been repaid by Chengdu Mayflower Technical during the year.

## 33. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (b) Transactions with related parties *(Continued)*

#### *(iv) Procurement of property, equipment and fixtures*

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Wuyang Construction | **27,995** | 207,384 |
| Dawu Trading | **1,096** | 71,690 |
| Mayflower Precision Instrument | **–** | 5,534 |
| Mianzhu Property | **–** | 5,101 |
| Ziyang Property | **–** | 3,989 |
| Others | **–** | 1,149 |
| Total | **29,091** | 294,847 |

The considerations for the construction of property, equipment and fixtures were determined at prices mutually agreed between the Group and its related parties with reference to the arm's length pricing obtained from the market.

#### *(v) Goods purchased and services received from related parties*

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Chengdu Mayflower Property Management | **864** | 2,878 |
| Hope English School | **–** | 939 |
| Tianyuan Insurance | **543** | 480 |
| Wuyang Construction | **1,970** | 203 |
| Mayflower Wine Sales | **1,187** | 39 |
| Wang Xiaoqiang | **1,545** | – |
| Others | **169** | 132 |
| Total | **6,278** | 4,671 |

The purchases of goods or services from the related parties were determined at prices mutually agreed between the Group and its related parties with reference to the arm's length pricing obtained from the market.

## 33. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (b) Transactions with related parties *(Continued)*

*(vi) Properties leased to related parties*

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Chengdu Mayflower Technical | **12,431** | 12,431 |
| Ziyang Automobile College | **4,631** | 9,261 |
| Rongxing Driving School | **1,390** | 2,862 |
| TOP School | **–** | 505 |
| Others | **1,501** | 802 |
| Total | **19,953** | 25,861 |

Rental charges were determined at prices mutually agreed between the Group and its related parties with reference to the arm's length pricing obtained from an appraiser.

*(vii) Services provided to a related party*

The Group has provided educational consulting service to College of Science and Technology of Guizhou University since September 2018 and charged service fees amounting to RMB4,587,000 during the year ended 31 December 2019 (2018: RMB2,294,000) at a price mutually agreed between the Group and the related party.

The Group has provided property management service to College of Science and Technology of Guizhou University since the second half of 2019 and charged service fees amounting to RMB1,596,000 during the year at a price mutually agreed between the Group and the related party.

*(viii) Acquisition of a joint venture*

The Group acquired a 100% equity interest in Maysunshine from Tequ Education at a consideration of RMB70,000,000 in July 2019 (note 31) on normal commercial terms and taking into account the original transfer cost of the Group's interest in Maysunshine to Tequ Education on 19 March 2018 and with reference to the arm's length pricing obtained from an appraiser. Further information can be found in the Company's circulars dated 19 June 2019.

The related party transactions in respect of properties leased to related parties constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 33. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (c) Balances with related parties

The Group had outstanding balances due from and to related parties at the end of the reporting period.

**Amounts due from related parties**

| | Note | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| **Non-trade in nature** | | | |
| College of Science and Technology of Guizhou University | | | |
| – Current | | 5,738 | – |
| – Non-current | 33(b)(ii) | 275,110 | – |
| | | 280,848 | – |
| **Trade in nature** | | | |
| Chengdu Mayflower Technical | | 11,255 | 1,736 |
| Chengdu Mayflower Property Management | | 2,519 | 1,446 |
| Ziyang Automobile College | | 5,732 | 1,052 |
| College of Science and Technology of Guizhou University | | 2,823 | – |
| Guizhou Mayflower Property | | 1,100 | – |
| Others | | 1,701 | 80 |
| | | 25,130 | 4,314 |
| | | 305,978 | 4,314 |

Except for the amount due from College of Science and Technology of Guizhou University of RMB280,848,000, amounts due from the related parties are unsecured, interest-free and have no fixed terms of repayment.

## 33. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

### (c) Balances with related parties (Continued)

**Amounts due to related parties**

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| **Trade in nature** | | |
| Wuyang Construction | **26,342** | 32,764 |
| Tequ Education | **–** | 14,070 |
| College of Science and Technology of Guizhou University | **–** | 4,587 |
| Tianyuan Insurance | **1,956** | 443 |
| Others | **2,465** | 1,089 |
| | **30,763** | 52,953 |

Payables due to related parties are unsecured, interest-free and have no fixed terms of repayment.

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **3,636** | 1,595 |
| Equity-settled share option expense | **1,906** | 8,561 |
| Pension scheme contributions | **457** | 306 |
| | **5,999** | 10,462 |

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

## 34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB12,371,000 and RMB12,371,000, respectively, in respect of lease arrangements for dormitories (2018: Nil).

### (b) Changes in liabilities arising from financing activities

| | Interest-bearing bank and other borrowings RMB'000 | Convertible bond/ instrument RMB'000 | Other payables and accruals RMB'000 | Lease liabilities RMB'000 | An amount due to a related party RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| At 1 January 2019 | 2,131,732 | – | 79,695 | – | – | 2,211,427 |
| Effect of adoption of IFRS 16 | – | – | – | 162,595 | – | 162,595 |
| At 1 January 2019 (restated) | 2,131,732 | – | 79,695 | 162,595 | – | 2,374,022 |
| Changes from financing cash flows | 312,738 | – | (151,892) | (25,139) | (34,787) | 100,920 |
| Non-cash changes: | | | | | | |
| New leases | – | – | – | 12,371 | – | 12,371 |
| Increase arising from acquisition of non-controlling interest | – | – | 18,000 | – | – | 18,000 |
| Increase arising from acquisition of subsidiaries | 119,065 | – | 34,620 | – | 34,787 | 188,472 |
| Interest capitalised | – | – | 2,210 | – | – | 2,210 |
| Interest expense | 33,357 | – | 119,517 | 10,660 | – | 163,534 |
| At 31 December 2019 | 2,596,892 | – | 102,150 | 160,487 | – | 2,859,529 |

## 34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

### (b) Changes in liabilities arising from financing activities *(Continued)*

| | Interest-bearing bank and other borrowings RMB'000 | Convertible bond/ instrument RMB'000 | Other payables and accruals RMB'000 | Lease liabilities RMB'000 | An amount due to a related party RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| At 1 January 2018 | 1,879,447 | 628,990 | 88,952 | – | – | 2,597,389 |
| Changes from financing cash flows | 259,404 | (400,000) | (195,087) | – | – | (335,683) |
| Classification of interest paid for presentation purpose | – | (22,400) | 22,400 | – | – | – |
| Non-cash changes: | | | | | | |
| Fair value changes of a conversion right | – | (13,271) | – | – | – | (13,271) |
| Composite instrument converted during the year | – | (233,428) | – | – | – | (233,428) |
| Transaction fee | (7,119) | – | – | – | – | (7,119) |
| Interest expense | – | 40,109 | 163,430 | – | – | 203,539 |
| At 31 December 2018 | 2,131,732 | – | 79,695 | – | – | 2,211,427 |

### (c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

| | 2019 RMB'000 |
|---|---|
| Within operating activities | 1,229 |
| Within investing activities | 293,590 |
| Within financing activities | 25,139 |
| | 319,958 |

## 35. FINANCIAL INSTRUMENTS BY CATEGORY

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

### Financial assets

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| *Financial assets at fair value through profit or loss:* | | |
| – Mandatorily designated as such: | | |
| Structured deposits | 1,002,967 | – |
| Wealth management products | 9,310 | – |
| | 1,012,277 | – |
| *Financial assets at amortised cost:* | | |
| Cash and cash equivalents | 1,690,419 | 3,038,905 |
| Financial assets included in prepayments, deposits and other receivables | 635,805 | 526,589 |
| Trade receivables | 3,714 | – |
| Restricted bank balance | 158,787 | – |
| A loan to a joint venture | 280,848 | – |
| Due from related parties | 25,130 | 4,314 |
| | 2,794,703 | 3,569,808 |

### Financial liabilities

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| *Financial liabilities at amortised cost:* | | |
| Trade payables | 33,610 | – |
| Due to related parties | 30,763 | 52,953 |
| Interest-bearing bank and other borrowings | 2,596,892 | 2,131,732 |
| Lease liabilities | 160,487 | – |
| Financial liabilities included in other payables and accruals | 1,379,887 | 562,385 |
| | 4,201,639 | 2,747,070 |

## 36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Financial assets** | | | | |
| Restricted bank balance, non-current portion | **108,787** | – | **108,787** | – |
| Structured deposits | **1,002,967** | – | **1,002,967** | – |
| Amount due from a joint venture, non-current | **275,110** | – | **275,110** | – |
| Wealth management products | **9,310** | – | **9,310** | – |
| | **1,396,174** | – | **1,396,174** | – |
| **Financial liabilities** | | | | |
| Other payables, non-current portion | **343,885** | 6,416 | **343,885** | 6,416 |
| Interest-bearing bank loans, non-current portion | **1,593,599** | 1,605,052 | **1,590,863** | 1,677,380 |
| | **1,937,484** | 1,611,468 | **1,934,748** | 1,683,796 |

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets at fair value through profit or loss, the current portion of structured deposits, current portion of the restricted bank balance, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, trade payables, short-term interest-bearing bank and other borrowings and the current portion of amounts due from/to related parties approximate to their carrying amounts largely due to the short-term maturities of these instruments.

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

The Group invests in unlisted investments, which represent wealth management products and structured deposits issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments and the non-current restricted bank balance, the non-current amount due from a joint venture by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

## 36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The fair values of the non-current interest-bearing bank and other borrowings, and the non-current other payable have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for non-current financial liabilities as at 31 December 2019 were assessed to be insignificant.

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

**31 December 2019**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets Level 1 RMB'000 | Significant observable inputs Level 2 RMB'000 | Significant unobservable inputs Level 3 RMB'000 | Total RMB'000 |
| Structured deposits | – | 1,002,967 | – | 1,002,967 |
| Wealth management products | – | 9,310 | – | 9,310 |
| | – | 1,012,277 | – | 1,012,277 |

## 36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

As at 31 December 2018, there were no financial instruments measured at fair value.

Assets for which fair values are disclosed:

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets Level 1 RMB'000 | Significant observable inputs Level 2 RMB'000 | Significant unobservable inputs Level 3 RMB'000 | Total RMB'000 |
| **31 December 2019** | | | | |
| Restricted bank balance, non-current portion | – | 108,787 | – | 108,787 |
| Amount due from a joint venture, non-current portion | – | – | 275,110 | 275,110 |
| | – | 108,787 | 275,110 | 383,897 |

As at 31 December 2018, there were no financial assets for which fair value was disclosed.

## 36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Liabilities for which fair values are disclosed:

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets Level 1 RMB'000 | Significant observable inputs Level 2 RMB'000 | Significant unobservable inputs Level 3 RMB'000 | Total RMB'000 |
| **31 December 2019** | | | | |
| Interest-bearing bank loans, non-current portion | **–** | **–** | **1,590,863** | **1,590,863** |
| Other payables, non-current potion | **–** | **–** | **343,885** | **343,885** |
| | **–** | **–** | **1,934,748** | **1,934,748** |
| **31 December 2018** | | | | |
| Interest-bearing bank loans, non-current portion | – | – | 1,677,380 | 1,677,380 |
| Other payables, non-current potion | – | – | 6,416 | 6,416 |
| | – | – | 1,683,796 | 1,683,796 |

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing bank and other borrowings. The interest rates and terms of repayments of the borrowings are disclosed in note 25. The Group manages its interest rate exposure arising from its interest-bearing bank loans through the use of fixed rates. The Group has not used any interest swaps to hedge its exposure to interest rate risk.

The Group does not consider that it has any significant exposure to the risk of changes in market interest rates as the Group does not have any long-term receivables and loans which are subject to floating interest rates.

### Foreign currency risk

The Group has currency exposures from its cash and cash equivalents as at 31 December 2019 and 2018. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$ and HK$ exchange rate, with all other variables held constant, of the Group's profit after tax.

| | Increase/ (decrease) in US$/HK$ rate % | Increase/ (decrease) in profit after tax RMB'000 |
|---|---|---|
| **2019** | | |
| If the RMB weakens against the US$ | (0.5) | 1,298 |
| If the RMB strengthens against the US$ | 0.5 | (1,298) |
| If the RMB weakens against the HK$ | (0.5) | 2 |
| If the RMB strengthens against the HK$ | 0.5 | (2) |
| **2018** | | |
| If the RMB weakens against the US$ | (0.5) | 7,817 |
| If the RMB strengthens against the US$ | 0.5 | (7,817) |
| If the RMB weakens against the HK$ | (0.5) | 10 |
| If the RMB strengthens against the HK$ | 0.5 | (10) |

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meets its contractual obligation. The Group has no concentration of credit risk from third party debtors. Deposits are mainly placed with licensing banks which are all high-credit-quality financial institutions. The Group's maximum exposure to credit risk is the carrying amounts of cash and cash equivalents, structured deposits, trade and other receivables, and amounts due from related parties.

### Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified approach | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2019** | | | | | |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | 583,887 | – | – | – | 583,887 |
| – Doubtful** | – | 51,918 | – | – | 51,918 |
| Cash and cash equivalents | 1,690,419 | – | – | – | 1,690,419 |
| Restricted bank balance | 158,787 | – | – | – | 158,787 |
| Structured deposits | 1,002,967 | – | – | – | 1,002,967 |
| Financial assets at fair value through profit or loss | 9,310 | – | – | – | 9,310 |
| Trade receivables* | – | – | – | 3,714 | 3,714 |
| Loan to a joint venture | 280,848 | – | – | – | 280,848 |
| Due from related parties | 25,130 | – | – | – | 25,130 |
| | 3,751,348 | 51,918 | – | 3,714 | 3,806,980 |

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Maximum exposure and year-end staging** *(Continued)*

| | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | | | | Simplified | |
| | Stage 1 | Stage 2 | Stage 3 | approach | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2018** | | | | | |
| Financial assets included in prepayments, deposits and other receivables | | | | | |
| – Normal** | 508,660 | – | – | – | 508,660 |
| – Doubtful** | – | 17,929 | – | – | 17,929 |
| Cash and cash equivalents | 3,038,905 | – | – | – | 3,038,905 |
| Due from related parties | 4,314 | – | – | – | 4,314 |
| | 3,551,879 | 17,929 | – | – | 3,569,808 |

* For trade receivables to which the Group applies the simplified approach for impairment, the expected loss allowance for these balances was not material during the reporting period.

** The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful" (note 19(a)).

As at 31 December 2019 and 2018, substantially all of the bank deposits were deposited with major financial institutions incorporated in the PRC, which management believes are of high credit quality without significant credit risk.

All of the trade receivables, the other receivables and amounts due from related parties have no collateral, except the receivables from a third party (note 19 (a)). The Group assesses the credit quality of the counterparties by taking into account their financial position, credit history of failure to make payments on their contractual due date, the existence of forecast changes in market or environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group and other factors. Management also regularly reviews the recoverability of these receivables and follows up disputes or amounts overdue, if any. Management is of the opinion that the risk of default by counterparties is low. For receivables from a third party with collateral, management is of the opinion that the expected cash flows to receive from the sale of collateral held, discounted at an approximation of the original effective interest rate, are higher than the aggregate amounts of the loans and the interest receivables with collateral.

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Maximum exposure and year-end staging *(Continued)*

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as of the reporting date with the risk of default as of the date of initial recognition. It considers available reasonable and supportive forwarding-looking information.

The Group assessed that the expected credit losses for these receivables without collateral and amounts due from related parties are not material under the 12-month expected credit loss method. Thus, no loss allowance provision was recognised during the year.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings and lease liabilities.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | – | 136,940 | 1,019,372 | 1,735,861 | – | 2,892,173 |
| Financial liabilities included in other payables and accruals | 996,002 | – | 41,600 | 410,850 | 15,560 | 1,464,012 |
| Lease liabilities | – | 10,895 | 17,808 | 102,712 | 71,719 | 203,134 |
| Trade payables | – | – | 33,610 | – | – | 33,610 |
| Due to related parties | 30,763 | – | – | – | – | 30,763 |
| | 1,026,765 | 147,835 | 1,112,390 | 2,249,423 | 87,279 | 4,623,692 |

## 37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### Liquidity risk *(Continued)*

| | 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | On demand RMB'000 | Less than 3 months RMB'000 | 3 to 12 months RMB'000 | 1 to 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | – | 35,653 | 628,041 | 1,800,924 | – | 2,464,618 |
| Financial liabilities included in other payables and accruals | 555,969 | – | – | 12,000 | – | 567,969 |
| Due to related parties | 52,953 | – | – | – | – | 52,953 |
| | 608,922 | 35,653 | 628,041 | 1,812,924 | – | 3,085,540 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. The Group will minimise the capital expenditure and renew or extend its short-term loans as part of capital management.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The debt-to-asset ratio as at the end of the year is as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Total liabilities | **6,291,243** | 4,131,042 |
| Total assets | **10,856,531** | 8,291,194 |
| Debt-to-asset ratio | **58%** | 50% |

## 38. EVENTS AFTER THE REPORTING PERIOD

(i) On 28 February 2020, Hope Education HK and the Company entered into an agreement with independent third parties, pursuant to which the Group has conditionally agreed to purchase and the independent third parties have conditionally agreed to sell the entire issued share capital in Inti Education Holdings Sdn. Bhd. at the consideration of US$140,000,000 (subject to certain adjustments). Further information can be found in the Company's announcement dated 2 March 2020.

(ii) In early 2020, the outbreak of the novel coronavirus (COVID-19) had a certain impact on the education business of the Company, mainly due to domestic travel restrictions and various precaution measures undertaken by respective local authorities which inter alia, include closure of campuses and delays in school commencement during the outbreak period. The Group has put in place certain alternative action plans for its students during the campus closure period, which include the implementation of on-line modules and website distance learning activities and the shortening of summer vacation.

In view of the implementation of the abovementioned action plans, management has assessed and preliminarily concluded that there was no significant impact on the financial position of the Group subsequent to the year ended 31 December 2019 and up to approval of these financial statements. The Group will keep paying attention to the situation of the COVID-19 outbreak and react actively to its impacts on the operation and financial position of the Group and will reflect the impacts in the Group's 2020 interim and annual financial statements.

(iii) On 25 March 2020, the board of the directors and the Company announced that it has resolved to change the financial year end date of the Company from 31 December to 31 August (the "Change"). Accordingly, the next financial year end date of the Group will be 31 August 2020. The Change is to align the financial year end date of the Group with the academic year of the schools operated by the Group in the PRC, which ends in August each year. The board of the directors considers that the Change will facilitate the preparation of the consolidated financial statements of the Group and to better reflect the operational results of the Group for the financial year. To the best of its knowledge, belief and information, the board of directors does not foresee any material adverse impact on the Group resulting from the Change and there is no other significant matter that needs to be brought to the attention of the shareholders of the Company in this regard.

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Prepayments and other receivables | 5,575 | 1,416 |
| Amounts due from a subsidiary | 1,174,970 | 1,151,389 |
| Structured deposits | 1,002,967 | |
| Cash and cash equivalents | 525,837 | 1,564,605 |
| Total current assets | 2,709,349 | 2,717,410 |
| **CURRENT LIABILITIES** | | |
| Other payables and accruals | 5,210 | 1,179 |
| Total current liabilities | 5,210 | 1,179 |
| **NET CURRENT ASSETS** | 2,704,139 | 2,716,231 |
| **NET ASSETS** | 2,704,139 | 2,716,231 |
| **EQUITY** | | |
| Issued capital | 454 | 454 |
| Reserves (note) | 2,703,685 | 2,715,777 |
| Total equity | 2,704,139 | 2,716,231 |

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

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

| | Share premium RMB'000 | Share option reserve RMB'000 | Accumulated losses RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2018 | – | – | (27) | (27) |
| Loss and total comprehensive loss for the year | – | – | (108,296) | (108,296) |
| Issue of new shares for IPO | 2,785,710 | – | – | 2,785,710 |
| Equity-settled share option arrangements | – | 122,345 | – | 122,345 |
| Share issue expenses | (83,955) | – | – | (83,955) |
| At 31 December 2018 and 1 January 2019 | 2,701,755 | 122,345 | (108,323) | 2,715,777 |
| Profit and total comprehensive income for the year | – | – | 72,875 | 72,875 |
| Equity-settled share option arrangements | – | 20,528 | – | 20,528 |
| Final 2018 dividend declared | (105,495) | – | – | (105,495) |
| At 31 December 2019 | 2,596,260 | 142,873 | (35,448) | 2,703,685 |

## 40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2020.

In this report, unless the context otherwise requires, the following expressions shall have the meanings set forth below:

| | |
|---|---|
| "2018 Pre-IPO Share Option Scheme" | The 2018 pre-IPO share option scheme conditionally approved and adopted by our Shareholders on 18 March 2018 for the benefit of, amongst others, our Group's directors, senior management, employees, advisors, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners and service providers, a summary of the principal terms of which is set out in "Appendix V – Statutory and General Information" of the Prospectus |
| "Board" or "Board of Directors" | The board of Directors of the Company |
| "Business College of Guizhou University of Finance and Economics" | Business College of Guizhou University of Finance and Economics (貴州財經大學商務學院), a college established under the laws of PRC in 2004, acquired by our Group in April 2014 and approved by the MOE to be operated under the cooperation between Guizhou University of Finance and Economics and our Group in September 2014 |
| "Business Day" or "Business Day" | A day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong |
| "CG Code" or "Corporate Governance Code" | The code on corporate governance practices set out in Appendix 14 to the Listing Rules |
| "China" or "PRC" | The People's Republic of China excluding for the purpose of this report, Hong Kong, the Macau Special Administrative Region and Taiwan |
| "Company" or "our Company" | Hope Education Group Co., Ltd. (希望教育集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 13 March 2017 |
| "date of this annual report" | 24 April 2020 |
| "Director(s)" | The directors of our Company |
| "Group," "our Group," "We" or "Us" | Our Company, its subsidiaries and the consolidated affiliated entities from time to time, or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the entities which carried on the business of the present Group at the relevant time |
| "Guizhou Vocational Institute of Technology" | Guizhou Vocational Institute of Technology* (貴州應用技術職業學院), a college established by our Group under the laws of PRC in March 2016 |

# DEFINITIONS

| | |
|---|---|
| "HK$" or "Hong Kong Dollar(s)" | The lawful currency of Hong Kong, Hong Kong dollars |
| "Hong Kong" or "HK" | The Hong Kong Special Administrative Region of the PRC |
| "Hong Kong Exchanges and Clearing Limited" | Hong Kong Exchanges and Clearing Limited |
| "Hope Education" | Sichuan Hope Education Industry Group Limited* (四川希望教育產業集團有限公司) (formerly known as Sichuan Mayflower Investment Company Limited (四川五月花投資有限公司), Sichuan Hope Mayflower Investment Limited (四川希望五月花投資有限公司), Sichuan Hope Education Industry Company Limited (四川希望教育產業有限公司)), a limited liability company established under the laws of PRC on 12 January 2005 |
| "IFRS" | The International Financial Reporting Standard(s) |
| "Independent Third Party(ies)" | An individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates |
| "Jiexing Huilv" | Guizhou Jiexing Huilv Air Service Consultant Services Limited (貴州捷星慧旅航空空乘諮詢服務有限公司), a limited liability company established under the laws of PRC on 9 September 2010 |
| "Jinci College of Shanxi Medical University" | Jinci College of Shanxi Medical University* (山西醫科大學晉祠學院), a college established under the laws of PRC in June 2002, acquired by our Group in April 2014, and approved by the MOE to be operated under the cooperation between Shanxi Medical University and our Group in August 2014 |
| "Listing" | The listing of the Company's Shares on the Main Board of the Stock Exchange of Hong Kong Limited |
| "Listing Date" | 3 August 2018, the date on which the Company's Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange of Hong Kong Limited |
| "Listing Rules" | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |

| | |
|---|---|
| "Main Board" | The stock exchange (excluding the option market) operated by the Stock Exchange is independent of and operated in parallel with the GEM of the Stock Exchange |
| "Model Code" | The Model Code for securities transactions by Directors of listed issuers set out in Appendix 10 to the Listing Rules |
| "MOE" | Ministry of Education of the PRC |
| "M&A" | Mergers and acquisitions |
| "Prospectus" | The prospectus published by the Company on 24 July 2018 |
| "Reporting Period" | The year ended 31 December 2019 |
| "RMB" or "Renminbi" | Renminbi, the lawful currency for the time being of the PRC |
| "SFO" or "Securities and Futures Ordinance" | The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Shanghai Pumeng Group" | Shanghai Pumeng and its subsidiary, Kunshan Xinwei, which held 100% sponsor interest in each of Suzhou Top Institute and Kunshan Technical School |
| "Share(s)" | Ordinary share(s) of a nominal value of US$0.00001 each in the share capital of our Company |
| "Shareholder(s)" | Holder(s) of the Share(s) |
| "Sichuan Department of Education" | Sichuan Department of Education |
| "Sichuan Hope Automotive Technical College" | Sichuan Hope Automotive Technical College* (四川希望汽車技師學院), a college established by our Group under the laws of PRC in July 2016 |
| "Sichuan Hope Automotive Vocational College" | Sichuan Hope Automotive Vocational College* (四川希望汽車職業學院), a college established by our Group under the laws of PRC in March 2013 |
| "Sichuan TOP IT Vocational Institute" | Sichuan TOP IT Vocational Institute (四川托普信息技術職業學院), a college established by Sichuan TOP Education Co., Ltd. (四川托普教育股份有限公司) in June 2000 and acquired by our Group in December 2017 |

# DEFINITIONS

| | |
|---|---|
| "Sichuan Vocational College of Culture & Communication" | Sichuan Vocational College of Culture & Communication* (四川文化傳媒職業學院), a college established as a higher vocational college in 2005 and acquired by our Group in March 2014 |
| "Southwest Jiaotong University Hope College" | Southwest Jiaotong University Hope College* (西南交通大學希望學院), a college approved by the MOE to be established under the cooperation between Southwest Jiaotong University, Chengdu West Hope Group Limited and our Group in April 2009 |
| "State" | The central government of the PRC, including all governmental sub-divisions (such as provincial, municipal and other regional or local government entities) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Subsidiary(ies)" | Has the meaning ascribed to it in the Listing Rules |
| "Tequ Education" | Sichuan Tequ Education Management Limited* (四川特驅教育管理有限公司), a limited liability company established under the laws of PRC on 30 November 2017 following the division under reorganization, the shareholding of which largely mirrors that of Hope Education and is indirectly controlled by Mr. Wang Huiwu |
| "The College of Science and Technology of Guizhou University" | The College of Science and Technology of Guizhou University* (貴州大學科技學院), a college established under the laws of PRC in May 2001, approved by the MOE to be operated under the cooperation between Guizhou University and a third party in December 2014 and acquired by our Group in September 2016. Our Group disposed The College of Science and Technology of Guizhou University on 19 March 2018. For further details of the disposal, see "History, Reorganization and Corporate Structure" in the Prospectus |
| "The Stock Exchange of Hong Kong Limited" | The Stock Exchange of Hong Kong Limited |
| "Tianyi College" | Sichuan Tianyi College* (四川天一學院), a college established and named as Sichuan Tianyi Open College (四川天一開放函授進修學院) in 1991, approved by the State Education Commission (currently, the MOE) to be a formal junior-college-level higher education institution in 1994 and acquired by our Group in September 2011 |
| "U.S." or "United States" | The United States of America, its territories, its possessions and all areas subject to its jurisdiction |
| "U.S. Dollar(s)" or "US$" or "USD" | United States dollars, the lawful currency for the time being of the United States |
| "Yinchuan Group" | The six entities the Group acquired during the year, namely Yinchuan University of Energy, Yinchuan Vocational School of Science and Technology, Vocational-technical Training Center of Yinchuan University, Ningxia Modern Senior Technical School, Car Driving Training School of Yinchuan University Education Group, and Auto Repair Factory of Yinchuan University Education Group |
| "%" | Percent |